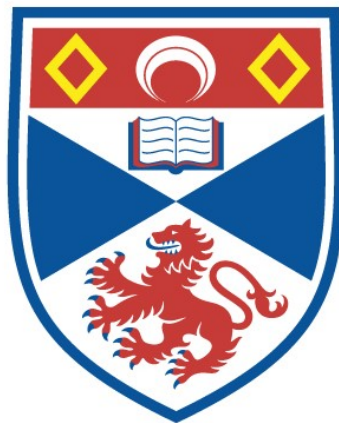


THE CHINESE FILM INDUSTRY: FEATURES AND TRENDS,
2010-2016

Jinuo Diao

A Thesis Submitted for the Degree of PhD
at the
University of St Andrews



2020

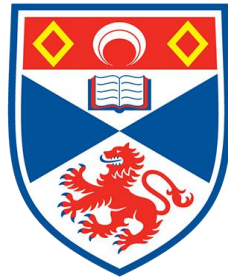
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The Chinese Film Industry: Features and Trends, 2010-2016

Jinuo Diao



University of
St Andrews

This thesis is submitted in partial fulfilment for the degree of
Doctor of Philosophy (PhD)
at the University of St Andrews

December 2019

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Abstract

The thesis will analyse the evolution of the Chinese film industry between 2010 and 2016. During this period, the Chinese film industry experienced rapid development and underwent massive structural change and expansion. The years 2010 to 2016, also gave rise to a number of important events and phenomena within the Chinese film industry, including technological changes that impacted upon traditional entertainment practices, new Internet-driven innovations, an enormous influx of capital, generous government incentives and an overall explosion in media saturation and popularity.

My research poses the following questions; what are the key features of the Chinese film industry between 2010 and 2016? What developments transpired within the Chinese film industry between the years 2010 and 2016 and how might we understand and rationalise these contemporary trends. This thesis adopts a political economy approach. It is the assertion of my research that developments within the Chinese film industry must be considered within the wider socio-economic and political context of contemporary China. This thesis provides a macro-level study of the contemporary Chinese film industry, with focus given to four key areas of research, namely policy, production, distribution and exhibition. These four study areas provide a fitting entry point to better understand the shifting dynamics of the Chinese film industry between 2010 and 2016.

The intention of this thesis is to map out contemporary trends within the Chinese film industry. My research, aimed at both academics and industry insiders alike, adopts an industry perspective with the aim of both enriching further scholarship on Chinese cinema, while simultaneously serving as a source of knowledge and understanding for those working within the industry. It is hoped that this thesis will enhance further the academic studies on Chinese cinema by providing an industrial bedrock upon which additional analysis can be based, while also providing the industry with insight that will facilitate the continued health and sustainability of cinema in China.

General acknowledgements

This thesis has evolved over a period of nearly four years, embodying not only my own hard work and commitment but also the help and guidance of others. I would therefore like to express my deepest gratitude to all the people who assisted and supported me along this journey.

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Notes on Positioning of the Chinese Film Industry, Chinese Names, Currency Converter, and Film Titles

1. Scope of Research: The Positioning of the 'Chinese' Film Industry

In this thesis, I limit my definition of the 'Chinese' film industry to that of mainland China. My definition therefore does not include the film markets of Hong Kong, Macao and Taiwan. I justify my decision to limit the focus of this thesis to mainland China as it is the film industry of mainland China that has attracted both scholarly and industry attention as an emerging global and commercial film industry in recent years.

Additionally, the decision to focus purely on mainland China was purely a logistical one, as the statistics on the Chinese film industry published by The State Administration of Press, Publication, Radio, Film, and Television of the People's Republic of China, including box office revenue, screen numbers, audience viewing numbers, focus exclusively on Mainland China.

2. Chinese Names

In order to preserve the versatility of romanising Chinese names, this thesis employs the most commonly known spellings in either pinyin, English, or specific manners of romanisation. Surnames usually come first for Chinese romanisation, while those individuals who have adopted the Western format for their names have their surnames last. I signify people's surnames by capitalising them only the first time their names are mentioned in the main text of this thesis (not footnotes, even if their names may appear in the footnotes first), for example, JIN Yihong. Thereafter, I refer to them by mentioning their surnames in title case, for example, Jin.

If the names (for example, of critics/reviewers) appear only in the footnotes and not in the main text, their surnames are capitalised in the footnotes on first appearance. For Cantonese names, surnames are followed by hyphenated forenames, for example, WONG Kar-wai (with surname capitalised on first appearance). For pinyin names, surnames are followed by un-hyphenated forenames, for example, ZHANG Yimou.

As for those who share the same surname, for example, XU Zheng, XU Fan, XU Jinglei when I refer to their names after they first appear in this thesis, I still use both their surnames and forenames for the purpose of clarity.

3. Currency Exchange

For the convenience of international researchers, the financial data included in this thesis is provided in both Chinese Yuan (CNY) and US dollar (USD). However, owing to the fact that the data utilised covers a seven year period between 2010 and 2016, the currency conversion rate naturally differs throughout. For example, as of 1st September of 2010, the exchange rate between USD and CNY stood at 1 : 6.815, but on 1st September of 2016, this rate was 1: 6.674. Accordingly, as a result of the fluctuating nature of the two currencies over the seven years covered within this thesis – the highest exchange rate between USD and CNY being 1 : 6.9612

and the lowest being 1 : 6.0404 – this thesis employs the average exchange rate of about 6.3956/6.4 as the main exchange rate.

4. Film titles

Only the translated English titles of films are used in the main body of this thesis. Original Chinese titles and English titles of those films are listed in the Filmography.

PART 1

1. Introductory Chapter

A word that has increasingly become synonymous with contemporary Chinese cinema is growth. Over the past two decades, the Chinese film market has expanded exponentially. In 2000, China released just 91 films; this number jumped to 798 in 2017, exceeding the 740 features released in North America and the 594 released in Japan that same year (China Power Team, 2019).

In 2010, China's annual box office exceeded CNY 100 million (USD 15.63 million) for the first time. In 2013, this figure had reached CNY 20 billion (USD 3.13 billion) and by 2017 exceeded CNY 55.9 billion (USD 8.73 billion) (China's National Film Bureau, 2018). Between 2010 and 2016, cinema attendance rose by a massive 600 per cent, with roughly 1.4 billion people visiting the cinema (see Figure 1).

The Chinese film market became the second largest in the world by 2012. While the global film market experienced average annual growth of 4% between 2010 to 2015, the Chinese film market enjoyed over 30%. (Hernandez, 2016; Brzeski, 2016; Yin, 2014; China Film Association & China Federation of Literary and Art Circles Film centre, 2015) This growth has been incremental, with every successive year producing further expansion (Oxford Economics, 2017).

Indeed, the growth of global film market was largely propelled by China. Ticket sales in China accounted for USD 7.9 billion in 2017, including a 7 per cent increase in overseas box office takings for US films. By comparison, US and Canada ticket sales totalled USD 11.1 billion, down 2 per cent. If not for a 4 per cent increase in the average ticket price to USD 8.97, this drop would have been even worse (Associated Press., 2018).

Both PricewaterhouseCoopers (PwC, 2016) and Deloitte (Deloitte, 2017) predict that the Chinese film market will become the largest in the world by 2020. PwC expects China's box office revenues to hit USD 15.08 billion by the end of the decade, several billion dollars more than their estimate of USD 11.87 billion for the US. In addition to theatrical releases, streaming services like iQiyi and Tencent Videos are expected to further enrich

the Chinese film industry (China Power Team, 2019). Due to its unprecedented growth, the Chinese film market is attracting attention from around the world.

	2010	2011	2012	2013	2014	2015	2016
Fiction Films Production Number	520	558	745	638	618	686	772
Box-office Revenue (100 million)	101.72	131.15	170.73	217.69	296.39	440.69	492.83
Cinema Chain Number	38	39	45	45	47	48	48
Screen Number	6256	9286	13118	18195	23592	31627	41179
Attendance (100 million)	2.86	3.7	4.66	6.17	8.34	12.6	13.72

Figure 1. Major Current Growth Trends in the Chinese Film Industry¹

In light of the Chinese film industry's continuous growth, new paradigms for analysing this expanding industry are needed.

The intention of this thesis is to map out contemporary trends within the Chinese film industry. My research, aimed at both academics and industry insiders alike, adopts an industry perspective with the aim of both enriching further scholarship on Chinese cinema, while simultaneously serving as a source of knowledge and understanding for those working within the industry. It is hoped that this thesis will enhance further academic studies on Chinese cinema by providing an industrial bedrock upon which additional analysis can be based, while also providing the industry with insight that will facilitate the continued health and sustainability of cinema in China.

¹ Chinese Film Association, *The Research Report 2017* (data collection from 2012 to 2016); Yin, *World Film Development* (data collection from 2010 to 2011).

1.1 Research Questions

My research poses the following questions; what are the key features of the Chinese film industry between 2010 and 2016? What developments took place during this period and what effects did they have on the film industry in China. Research on the Chinese film industry presents a number of challenges given the industry's complexity, novelty, and immaturity. During the period under observation, the Chinese film industry has witnessed many advances and evolutions, including technological changes impacting upon traditional entertainment practices, new Internet-driven innovations within the film industry, an enormous influx of capital, generous government incentives and an overall explosion in media saturation and popularity. This thesis endeavours to explore the developments that transpired within the Chinese film industry between the years 2010 and 2016 and examine the reasons for these contemporary trends.

The Chinese film industry is still relatively young and has witnessed a massive infrastructural expansion over the past two decades. Because of this, the very concept of the Chinese film industry is still rather vague. It is the intention of this thesis to provide the reader with the tools to better understand the contemporary Chinese film industry. What are the regulations that govern the industry? Who enforces these regulations and what practices are adopted in the act of enforcing them? This thesis proposes to build a clearer picture of industry on a macro level.

Research on the Chinese film industry faces a number of challenges both in terms of the abundance of information and because of the sheer scale of the market. The rapid urbanisation of China has significantly altered the demographic pattern of contemporary society. One study estimates that China will have more than two hundred cities with populations exceeding one million citizens by the year 2025 (McKinsey Global Institute, 2009). This may potentially result in new structure of theatrical distribution and exhibition. This thesis, as well as presenting an in-depth overview of the Chinese film industry, also seeks to engage with potential trends and developments that may occur in the future.

Furthermore, the cooperation and competition within the global film market has presented new challenges for the Chinese film industry. Co-productions have become

an increasingly prevalent method of producing cinema in China, providing international filmmakers greater access to the Chinese market while also providing a means of circumnavigating China's annual quota system. However, while this increasing international access creates greater competition for domestic films, co-productions have simultaneously granted Chinese filmmakers greater access to the international market and enriched Chinese cinema with international influence. With the rising boom in international co-productions, there is a need for greater understanding between domestic and foreign film industry personnel. This thesis seeks to engage with this issue of cross-cultural integration.

This thesis adopts a nest structure in each chapter that raises the following questions with regards to issues of policy, production, distribution, and exhibition:

1. What are the main characteristics of the contemporary Chinese film industry?
2. How does the Chinese film industry operate?
3. What are the limitations and problems being faced?
4. How are these issues being addressed?

Generally speaking, the characteristic features of the Chinese film industry between 2010 and 2016 have been *the industry's accelerated growth*, the continued role of the *government in overseeing industry practices*, and the still *immature nature of the Chinese film industry*. The main aim of this thesis is to establish important trends of the contemporary Chinese film industry, those being *Marketisation*, *Technology*, and *Internationalisation*. This thesis examines the Chinese film industry in light of these main factors, each of which will be discussed in the proceeding chapters.

1.2 Choice of timeframe (2010 – 2016)

The thesis will analyse the evolution of the Chinese film industry between 2010 and 2016. This particular timeframe was chosen because of the rapid developments that transpired during this period. During this time, the Chinese film industry underwent massive structural change and expansion, and experienced a number of important events and phenomena.

Support from the Chinese government helped the development of the film industry during this period. The government initiated substantial reforms in 2002 and kept introducing policies that sought to accelerate the growth of the film industry and protect Chinese domestic filmmaking. From 2002 to 2010, a growth of CNY 10 billion (USD 1.56 billion) was just a starter (China Film Association, 2011), as growth after 2010 accelerated even faster after the government gave its full support to the film industry.

2010 was the first year the Chinese box office revenue achieved CNY 10 billion (USD 1.56 billion). With the release of the Cultural Industries Stimulation Plan in 2009, China's cultural services industry was elevated to the national strategic level. In 2010, the State Council and nine other ministries issued additional guidelines, breathing new life into China's film industry.

In 2010, the State Council of China was established, charged with providing guidance for all of China's cultural industries. It announced that the culture industries would be developed as pillars of the national economy and the Chinese film industry would be one of the chief beneficiaries of these developments. Therefore, given the positive developments that transpired as a result of these new policies, I have chosen 2010 as the starting point for my research.

On 6th May 2011, the State Administration of Radio, Film and Television² released its plan for the Chinese film industry called *The Chinese Film Development Draft Plan for 2011-2020* (Zhongguo Dianying 2011-2020 Nian Fazhan Guihua Gangyao) which set both short and medium-term goals for the Chinese film market. In the short term, the target for ticket sales was set at 286 million by 2015, and box office revenue of CNY 10.172 billion (USD 1.59 billion).

These targets were soon not only reached, but surpassed. Within just four years of the plan's announcement, in 2014, box office revenue had already reached CNY 29.639 billion (about USD 4.6 billion). Furthermore, both the number of screens and the number of ticket sales increased fivefold, with 31,627 screens and an audience of 1.26 billion respectively. By 2015, box office revenue stood at CNY 44.069 billion (USD 6.8 billion),

² In 2013, The State Administration of Radio, Film and Television changed name, to become The State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China.

doubling the original target. In just a single year, between 2014 and 2015, Chinese box office revenue increased by 48.7 percent, from CNY 29.6 billion to CNY 44 billion (Figure 1).

For the medium-term goals, by 2020, the total number of screens, the audience size, and box office revenue were all required to show a two-fold increase of the 2015 figures. However, in 2015, ZHANG Huijun pointed out that the medium goal would be achieved at least two years in advance of the original target (Zhang H. , 2015). This demonstrates the unprecedented growth of the Chinese film industry.

At the same time, developments within the Chinese film industry sparked new opportunities and challenges. For example, in 2012, China increased the quota of profit-sharing imported films from the original 20 films, to 34 films per annum. The increased quota has stimulated the box office but also exerted greater pressure on domestic films. During 2012, imported blockbusters dominated with an 82.6% share of the total box office revenue. In the same year, the Chinese film market surpassed Japan's, becoming the second largest in the world after the North American market.

In 2013, a number of private companies with strong business interests in both the culture industries and new media would initiate further changes within the Chinese film industry. In both the home and overseas markets, companies such as Huayi Brothers, Enlight, Wanda Group and LeVision,³ would acquire significant mergers, acquisitions, and restructurings. These private firms would see a development in both traditional and new types of media (Yin, 2014).

Furthermore in 2013, the National Film Industry Finance Management Committee Office announced that they would strengthen their support for the production of high-tech films (3D and IMAX). Companies willing to produce 3D and IMAX films would be eligible for state subsidies if box office revenues exceeded CNY 55 million (USD 8.59 million). This announcement has been seen as an effort to protect domestic filmmaking from the additional fourteen 3D or IMAX films from Hollywood, an increase facilitated by the enlargement of the imported film quota of 2012. However, given the fact that Chinese

³ Companies information please see *Appendix 5*.

audiences have generally welcomed 3D and IMAX films with enthusiasm, Chinese film producers have begun to realise the market potential of such films.

In 2014, the impact of the Internet on the production, distribution, exhibition of Chinese cinema, as well as its impact on Chinese audiences, became increasingly visible. This same year also saw the introduction of other policies, such as the optimising of the approval process and the lowering and/or cancellation of taxes, which stimulated the industry. I will analyse these matters in greater depth in the chapter about the influence of policy on the Chinese film industry.

Since 2015, the Chinese film industry has increasingly promoted novel and innovative forms of new media and entertainment. I will discuss the issues surrounding these new forms of film entertainment, with particular emphasis on the reality film, in later chapters on production and distribution as well as other new phenomena within the industry. Also, the China Film Archive and *Engroup* have developed a *Survey for Chinese Audience Satisfaction 2015*, which is the first nationwide audience viewing survey in China. I will use this survey as the basis of my discussion of audiences.

Furthermore, the year 2015 saw one of the most important developments in the Chinese film industry, the first proposed film law, the Draft Law of the Chinese Film Industry Promotion Law (*Zhongguo dianying cujinfa caoan*). This new piece of legislation sought to ease censorship and boost production. On 30th October, 2015, the Standing Committee of the National People's Congress submitted the Chinese Film Industry Promotion Bill to the National People's Congress, which was implemented in March, 2016. The Draft Law has generally been welcomed, its main aim being to simplify the censorship process for screenplays with non-sensitive themes. However, scripts engaging in issues of religion, national identity and history, and other sensitive subject matter must still be scrutinised. Other issues addressed in the Draft Law include the cancellation of film shooting permits (not screening permits); the lowering of the barriers of entry for the film industry and an increased punishment for box office fraud. ZHANG Huijun, the head of the Beijing Film Academy and the Vice President of China Filmmakers' Association, said that this new law was made possible by the significant steps taken by the Chinese film industry over the past two decades (Zhang H. , 2015).

In 2016, China's annual box office revenue stood at CNY 45.71 billion (USD 6.64 billion), an increase of only 3.73% from the previous year. This rate of increase was significantly less than the 48.7% increasing rate between 2014 and 2015 (see Figure 2 and Figure 3).

Year	2010	2011	2012	2013	2014	2015	2016
Box Office Revenue (billion, CNY)	10.2	13.1	17.1	21.8	29.6	44	45.7
Growth Rate	63.91%	28.93%	30.18%	27.51%	36.15%	48.7%	3.73%

Figure 2. The Growth Rate of Chinese Mainland Box-office Revenue from 2010-2016⁴

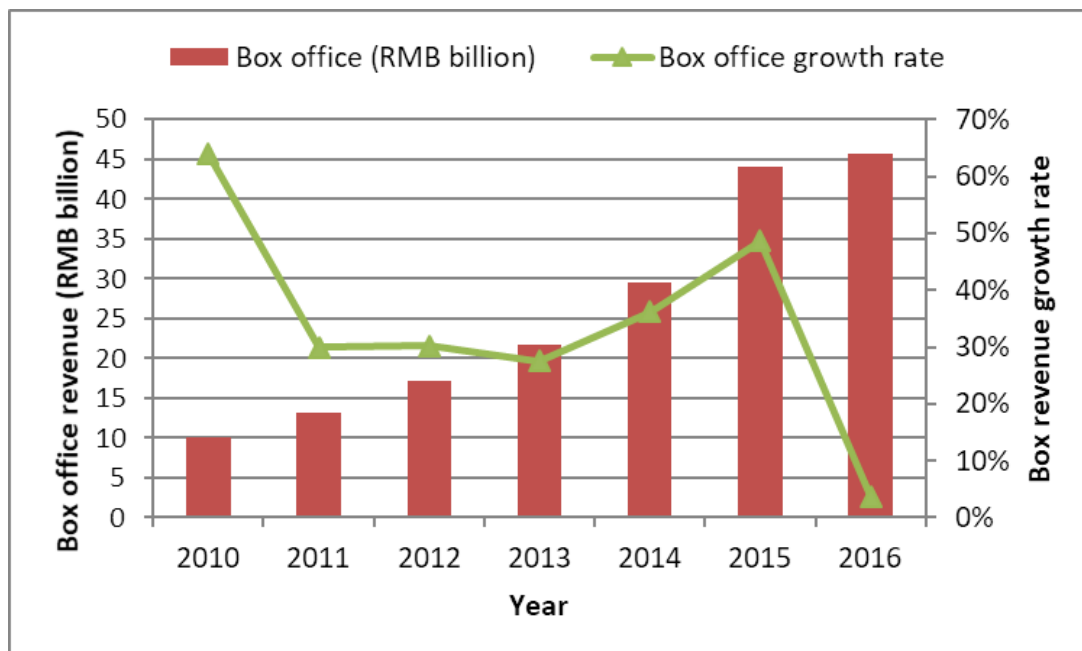


Figure 3. Box office in the Chinese film industry from 2010 to 2016⁵

⁴ China Film Association, *Annual Reports 2011 to 2017*.

⁵ China Film Association & Chian Federation of Literary & Art Circles Film Centre, 2011-2017.

Commentators have put this decrease in growth down to the fact that the Chinese film industry has faced bottleneck restrictions. However, other industry insiders believe that this slowing growth might be beneficial for the long-term health of the Chinese film industry, because it reflects the reducing effects of the fake-booming bubbles of the film market. Director Ang Lee has warned Chinese filmmakers that

the market is good so everyone is impatient and wants to make money. So you may be tempted to grow faster but then there will be an uneven distribution of resources. We had that kind of disaster in Hong Kong and Taiwan many years ago when everyone was chasing the same stars and making similar films. (in Chinese) (An, 2016).

As Lee states, Chinese filmmakers should slow down and learn their craft rather than rush out under-developed films to satisfy the booming Chinese market (Shackleton, 2016).

How can we perceive this phenomenon and explain the slowing rate of growth that transpired between 2015 and 2016? Is it the turn-point for the Chinese film industry? My thesis is compelled to address these questions. My research endeavours to analyse current trends in the contemporary Chinese film industry as well as provide observations and forecasts for the future of film in China.

Finally, because of the fact that my doctoral research began in 2015, for logistical reasons I have been compelled to select a cut-off date for the era covered in this study. This is another reason why I have chosen to focus on the dates 2010 to 2016.

1.3 Significance of Research

The culture industries, and the film industry in particular, are increasing in prominence not only in Chinese film studies but also within wider industry-related film research more broadly. China is attracting the attention of academics from both the West and the East (Curtin, 2007; Keane, 2005, 2010; Xu, 2007; Berry and Pang, 2010; ZHU Ying and Rosen,

2010; Khoo and Metzger, 2009; Xiang and Walker, 2014; Eliashberg, Elberse, and Leenders, 2006).

Academics acknowledge the complexity and novelty of the Chinese film industry, highlighting its unique characteristics and developments as well as a dearth in relevant industrial research (Xiang and Walker, 2014; Yang, 2012). Even for film scholars and industry participants, the contemporary Chinese film industry is still a vague concept with plenty of unknown or unclear elements.

In the context of the booming Chinese film industry, this thesis seeks to document the unique combination of economic, socio-political and cultural elements that have contributed to the industry's massive expansion. It provides insight into the contemporary industrial context between 2010 and 2016, the industry's pre-existing evolution before these dates and its continued progress and central position within the global film market.

Additionally, developments within the Chinese film industry have been significantly driven by the governmental reforms enforced over the past few years. Consequently, the pre-existing academic research into Chinese cinema, much of which adopt approaches derived from the study of other national film industries, often lack adequate industrial-specific and culturally-specific insight into Chinese film industry, and fail to adequately engage with an unprecedented situation that needs to be explored in its own right.

This research attempts to address current developments in Chinese cinema and explain why the Chinese film market is continuing to grow, research that is currently lacking in the existing literature. My research seeks to contribute to the knowledge and understanding of film industry research discourse. Given that commentators have predicted that China will become the largest film market in the world by 2020, it is essential to understand the current trends and developments within the Chinese film market and explore the reasons for these trends and their impact on the future of Chinese cinema.

This thesis seeks to address a number of pertinent questions regarding the Chinese film industry. For example, if international filmmakers wish to cooperate with China, what

government policies do they need to follow? Are developments within China's film industry replicable, and can other countries draw upon the experience of the Chinese film industry? It is hoped that this thesis will serve as a valuable piece of scholarship for academics in the varying fields of cultural studies, Chinese cinema, and/or industry studies while also serving as a useful document for film practitioners, research institutions, and also the filmmaking institutions themselves.

I will begin my research by engaging with the policies that have shaped the modern Chinese film industry. I will then investigate the three traditionally accepted chains of the film industry, namely production, distribution and exhibition (Jones, Lorenzen, & Sapsed, 2015; Iordanova, 2003; Lorenzen, 2007, 349-357; Eliashberg, Elberse, & Leenders, 2006, 638-661), as they relate to the contemporary Chinese film industry. I will then explain how these conventional perspectives fail to provide sufficient understanding of the film industry in Mainland China.

The Chinese film industry has historically been influenced by changing governmental policies (Jin Y. , 2014; Zhu & Rosen, 2010; Zhou Y. , 2015; Su, 2014). Understanding these policies thus becomes an essential task for those wishing to be involved with the Chinese film industry (Jin Y. , 2014; Zhu & Rosen, 2010). The stereotypical perception on policies such as censorship, for example, positions them as obstacles in the filmmaker's pursuit of artistic and ideological liberty (Pang, 2006 and 2011; (Chen , Liu , & Shi, 1997). However, in the short term at least, such policies have been beneficial to Chinese filmmakers. For example, the Chinese government have offered numerous large-scale subsidies and incentives, attracting increasing amounts of private investment, particularly from outside China.

However, the stringent and inconsistent regulation on the distribution and exhibition of films and other cultural products continues to be linked to the political agenda of the government and directly affects industry balance sheets. It is necessary, therefore, to provide an explanation as to why this is the case.

Although the Chinese film industry is stronger than ever before, it is still not mature and desperately in need of assistance from developed film industries such as Hollywood (McDonald & Wasko, 2008; Cattani & Ferriani, 2008, 824-844; Su, 2014; Lorenzen, 2007; Thornley, 2014; Thornley, 2014; Cooke, 2007; Yin, 2005). Meanwhile, the Chinese film

market has also been perceived as a lucrative market for larger production companies such as *20th Century Fox*, *Warner Bros.*, *Paramount*, *Columbia*, *Universal* and *Walt Disney Studios*, because of its size and potential profitability. For example, *Times Warner* relocated its filmmaking headquarters to Beijing in 2015 in order to get closer to the policy makers of this new, burgeoning market (Shackleton, 2015). This exemplifies how increasing international cooperation and competition serves as an important topic in need of research and analysis.

To properly understand the patterns of growth within the Chinese film industry, two essential elements will be explored, namely governmental policies and the broader economic situation shaping contemporary China.

Over the past few years, the Chinese film industry has witnessed rapid expansion (see Figure 1 and Figure 2). Most of the changes were triggered by new or revised government policies; the majority of which came into effect extremely quickly in order to capitalise on China's fast-growing domestic film market. The impact of these policies continues to inform and impact upon the modern Chinese film industry. In contrast to many other national film industries, change has been rapid and comprehensive due to the government's central control system, and its desire to take advantage of the Chinese film industry's accelerating growth (Jin Y. , 2014; Yueh, 2014).

As the Chinese film industry becomes increasingly prosperous, generating both jobs and increasing profits, the government continues to shape it through its various mechanisms of support. In my research, I analyse the relationship between the government institutions and the film industry. The general policies of the film industry need to be reconsidered within the specific context of the contemporary Chinese film industry and its current working practices. This does not necessarily always equate to a positive correlation between the prosperity of the film industry and the government's involvement and input. Nevertheless, such research seeks to challenge the stereotypical views regarding governmental influence within the Chinese film industry. There is no one simple definition for this relationship between the state and the film industry, especially for a country like China, in which things are changing so dramatically and rapidly.

1.4 Challenges of the Research

The challenges produced by such a study lie in the ongoing changes and fluctuations within the Chinese film industry. The characteristic feature of the contemporary Chinese film industry is its instability and rapidly changing dynamics. Moreover, the changes currently affecting the Chinese film industry are linked to wider notions of economics, politics, society, science, technology and public opinion, all of which may drastically impact upon the film industry. Therefore, the difficulty of such research lies in the problematic nature of conceiving a systematic and theoretical model to an uncertain and rapidly shifting film market.

There are many diversified factors involved in the huge industrial chain that is the Chinese film industry. However, due to word count limitations, some of these factors cannot be fully explored within this thesis. Where possible, I have tried to engage with them in some capacity or, failing that, I have directed the reader to relevant scholarship where these issues have been addressed more substantially. Furthermore, in each chapter, I have highlighted a number of existing issues and potential problems currently faced by the Chinese film industry and have offered possible solutions for film industry insiders, while acknowledging subject areas in need of further research.

1.5 Theoretical Framework

The subject of film studies has traditionally focused on issues such as genre, specific cinematic works, filmmaking and production practices and film styles and texts. Investigations of film as a business were not as common until 1980s (Guback, 1987). This is in spite of the fact that films are commercial products with characteristics similar to those of typical manufacturing industries, incorporating similar processes such as production, distribution and consumption. At the same time, films, being a form of mass media or mass communication, operate within social structures, not just economic and industrial ones (McQuail, 2010). Consequently, China's history, its political regime, and its dramatic economic and social changes, have all influenced the development of the Chinese film industry.

In the late 1980s, the media economics approach was used to investigate economic issues in communication studies. This approach 'deals with the factors influencing production of media goods and services and the allocation of those products for consumption' (Doyle, 2002, 2). However, media economists tend to limit their view to a micro level, focusing on industry competition, strategy, pricing and trade with less consideration being paid to politics and related subjects such as regulation, control, and ownership. As a result, a media economics approach is ultimately unable to provide an exhaustive understanding of the contemporary Chinese film industry (Hsia, 2011). In order to be able to satisfactorily explore the Chinese film industry, a cross-disciplined, macro level approach is required.

The political economy approach has been used by many academics in the study of the communication and media industries (Hsia, 2011). Mosco (1996) defines this approach as 'the study of social relations, particularly the power relations, that mutually constitutes the production, distribution and consumption of resources' (25). The modern political economy approach is multidisciplinary, incorporating elements of economics, politics, sociology, policy study and so on (Golding & Murdock, 2000). Nicolas Garnham discusses the validity of a political economy approach, stating: 'In order to understand the structure of our culture, its production, consumption and reproduction and of the role of the mass media in that process, we need to confront some of the central questions of political economy in general' (Garnham, 1979, 129).

In the political economy of communications, the institutional circuit of communication products is emphasised (Mosco, 1996). This circuit combines the production, distribution, consumption, social relations and the power to control people. The purpose of using a political economy approach in communications and mass media studies allows one to analyse and understand the control, structures and the operations utilised in forms of communication and mass media such as newspaper, theatre, cinema, TV etc. (Wasko, Murdock, & Sousa, 2011). As the political economist of communication, Vincent Mosco (1996), states, 'The political economy approach to communication is one starting point or gateway among a range of others, such as cultural studies and policy studies, major approaches that reside on the borders of political economy' (2). This approach can be appropriately adopted for the study of the film industry as it utilises an

interdisciplinary perspective that engages with cultural, political and economic factors (Hsia, 2011).

Adopting a political economy approach offers an understanding of the power relations in media production, distribution and consumption. To be precise, it allows us to understand who exhibits power at different stages and how do they apply such power to communication (Smythe, 1960). In the context of the film industry, the power of production is held by those who have the ability to produce films and to decide what type of films are to be produced; the power of distribution is granted to those who own the films and control their distribution; the power of the exhibition explores who purchases and consumes these films. These various power holders are able to co-exist at multiple stages. Adam Smith's free economy approach, for example, suggests that power is possessed by demand and the government simultaneously, given that both have the power to influence and intervene. However, the political economy model offers a more complete explanation through an engagement with social, ideological and political factors. Additionally, the social impact of emerging technologies is another important factor in determining how mass media is disseminated and consumed (Mosco, 2004). A political economy approach can thus combine a study of the structure of power with the utilisation and commercialisation of new technologies, taking into account their social or even political impact (Hesmondhalgh, 2002).

This thesis adopts a political economy approach. It is the assertion of my research that the development of the Chinese film industry must be examined within the context of wider economic, social and political considerations. Through the integration of economic, social and political aspects, a political economy approach is best suited to a macro-level study of the Chinese film industry (see Figure 4).

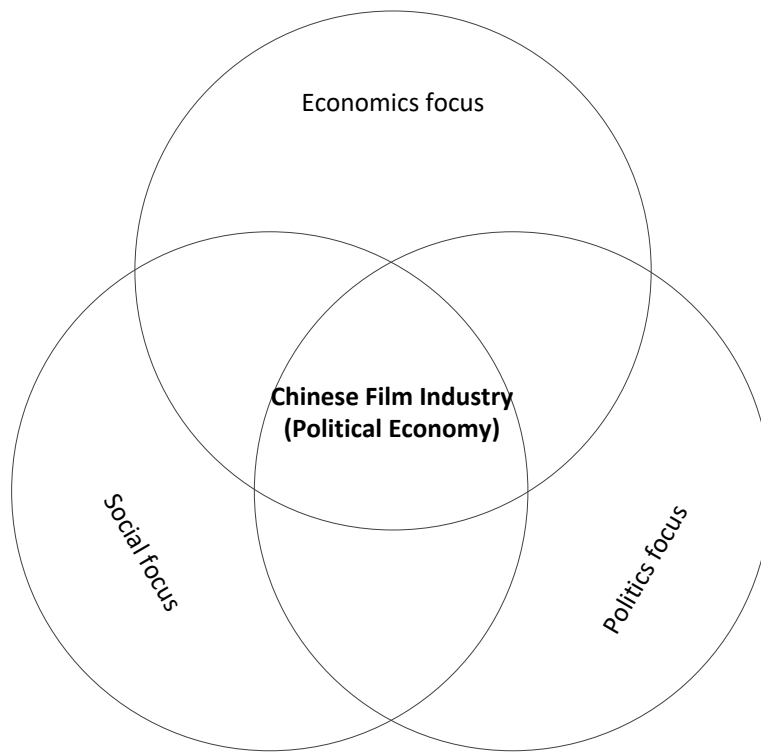


Figure 4. My Theoretical Framework: using Political Economy approach

The political economy approach positions films as tradeable goods with both apparent and underlying values. The structure of the film industry is perceived as being similar to other manufacturing industries in which the political economy approach has been employed. The cinematic 'product' has been conventionally considered having a lifecycle through different stages: production, distribution and exhibition. By using the economic models provided by the political economy approach, the cinematic 'product' can be characterised. Beyond a given film's economic value, the Chinese government has placed increasing emphasis on the cultural value of film and the political value of film as a tool of soft power. This trend is a perfect example of how film is shaped by a mixture of economic and political determinants. Consequently, it is important to adopt a methodology that considers both economic and political aspects.

Furthermore, the formation of civil society in China, as well as other social and political movements, has also impacted upon the policies shaping the Chinese film industry. The political economy approach offers a framework for understanding how these policies come to pass by engaging with wider socio-cultural, economic and political factors. The entire policy making process can be then reviewed as part of a bigger picture. Political factors such as ideology, regime stability, and civil movements; and economic factors

such as market, demand, and globalisation can be related and discussed under the framework of political economy in the context of how they relate to the film industry.

Finally, with the emergence of technologies such as the Internet, mobile technologies and virtual reality, the political economy approach provides a platform for examining the influence of these technologies on both the contemporary and future Chinese film industry.

The political economy approach has repeatedly been employed in the recent research on the Chinese film industry because, as Azmat Rasul (2015) states in his study of the Indian film industry, such an approach ‘explain[s] the intricate nature of [the] relationship between mass media and government apparatus’ (77). The political economy approach is a useful theoretical framework for uncovering the relationship between media industries and policy-makers. Indeed, as Robert W. McChesney (2008) states, the political economy approach provides insight into ‘the role of [the] media in different societies and examines how market structures, policies and subsidies, and organizational structures shape and determine the nature of media system and media content’ (491). Rasul provides a valuable case study that presents a critical overview of the Indian film industry, one that utilises a political economy perspective. Hsia (2011) provides a similar discussion of the Taiwanese film industry, also employing a political economy approach. These studies have offered useful frameworks from which my own research has been built.

1.6 Methodologies

As discussed, this study centres upon a period of seven years, from 2010 and 2016. In order to closely engage with the various aspects of Chinese cinema during this period, this thesis employs a range of traditional film industry research materials covering production, distribution and exhibition, as well as investigations into the policies relating to the Chinese film industry.

This thesis applies **qualitative method**. Primary sources include figures taken from China Film News, information sourced from the Computer Ticketing Network Centre of National Film Special Fund Office, market-ranking data obtained from the China Film Exhibition and Distribution Association, and additional data provided by a variety of

alternative, but no less reputable, sources. The above data has been cross-checked and published by prestigious third parties such as Entgroup, PWC and KPMG to ensure their accuracy and authenticity.

Detailed Internet research has also been undertaken. I have sourced reviews of Chinese films from both Western and Chinese websites, including *IMDb*, *Douban*, and *Rotten Tomatoes*, as well as reviews and commentary from mainstream Western newspapers such as *The Times*, *The Guardian*, *The Observer*, and *The Telegraph*.

In conducting research on the contemporary Chinese film industry, I adopted several specific methods. First, I engaged in detailed **document analysis** focusing on policies and economics related to film in China. Here, I selected appropriate legislative and research documents from academic and governmental sources. Document analysis has allowed me to build a foundation of knowledge through which to better understand the changing dynamics of the contemporary Chinese film industry.

The second methodological approach employed in this thesis is **statistical analysis**. Such analysis focuses upon the industrial performance of the Chinese film industry from both a Chinese and international perspective. The need to employ a variety of statistical sources serves to ensure the accuracy of the figures provided. For example, *The Research Report on the Chinese Film Industry* is a programme sponsored and funded by the Chinese Government. Since 2007, the China Film Association has started issuing Yearbooks, also known as the 'Annual Report of the Chinese Film Industry', where the data of the Chinese film industry is official. These are specifically commissioned for publication by the state or an authorised organisation. At other times, research is commissioned by private institutions and consulting companies that aren't intended for publication, and are not necessarily publically accessible. I have included both varieties of statistical research within my thesis.

For the readers' convenience, **tables and graphs** are regularly employed in the thesis, sourced from official reports and other statistics documents.

A further methodological approach adopted in this project is **big data research**. Technological advances have allowed me to collect large amounts of data on various aspects of the Chinese film industry. The big data method serves as a useful approach

as it allows me to correlate different aspects of Chinese cinema such as box-office, screening schedule, audience distribution. The data collected can be also used as parameters to predict trends in audience preferences and potentially prepare filmmakers for the future market. However, one of the challenges that such an approach brings is the credibility and consistence of the data. The data comes from multiple sources and it is difficult to ensure every source has approved credentials. Consequently, the results of big data analysis have the potential to be misleading if the data is inconsistent or has distortions from its source. This is further complicated by the fact that a trustworthy source at one time does not guarantee producing trustworthy data at other times. The sources of big data research can potentially be subjective, and often contaminated by underlining purposes. For example, consulting companies provide big data and analysis based on their data, which can be biased and even customised according to their client who pays for such services.

The biggest issue is the control of the resources of data. The distortion of data could lead to a misinterpretation of the data and consequently result in distorted facts. However, while certain data may be untrustworthy, trends exposed by this data could prove to be potentially useful. The data acquired from big data research is best utilised as a means of crystallising the trends shown, which is then validated by other methods such as statistical and/or textual analysis. The results of big data research should thus be treated as reference points rather than evidence.

The better practice of using big data method is to link the big data with the other methods of analysis. In this thesis, although I have adopted big data results as evidence in many discussions, other evidence taken from alternative and/or complimentary sources will be used to justify the data and support my arguments and conclusions.

Additionally, this thesis employs **literature analysis**, a qualitative form analysis that engages with the pre-existing research on production, distribution, exhibition, industry policies, audiences, and global competition and cooperation, from both English and Chinese sources. My aim is to review the status of the current research and explain how I have collated the information used.

Finally, this thesis will examine **the trade media coverage**, on the Chinese film industry, analysing information printed in trade publications, relevant online sources, newspapers,

journals such as *Screen International*, *Variety*, *Sight and Sound*, and personal blogs, for example Robert Cain's *China Film Biz*.⁶ I will also engage with the commentators of TV programmes such as *Yang Lan One on One*; *A Date with Lu Yu*; *China Movie Report*, and their personal media coverage i.e. blogs and WeChat Media. I will also draw upon the experience of film industry employees. I argue that the changes in the production process provide an overly simplified explanation of the organisation and operation of the Chinese film industry and the factors influencing its institutions. The data is organised thematically detailing the process involved in gaining access to, and maintaining employment in, the Chinese film industry. The concerns gleaned from these references provide many valuable ideas and suggestions for conducting this research.

1.7 Literature Review

This thesis covers a period of seven years, dating from 2010 to 2016, and utilises materials from a wide variety of sources, including government documents, books, newspapers and magazines, social media posts from film industry insiders – including those taken from blogs, WeChat publications and Weibo – as well as more traditional forms of scholarship taken from academic books, journals and articles. Additional sources include those taken from the Annual Report on the Chinese film industry and secondary data published in government statistics.

Over the past two decades, academic research surrounding the various aspects of the Chinese film industry has risen dramatically in ascendancy and the film industry has proved to be a fruitful site of research for many scholarly disciplines. Indeed, many of the original studies dedicated to the Chinese film industry have been highly influential, shaping subsequent developments within the discipline while also strongly influencing my own research inclinations and philosophies (Caves, 2011; Swami, Eliashberg and Weinberg, 1999,352-372; Curtin,2007).

Due to the increased presence and influence of the Internet within the Chinese film industry, the industry has experienced a plethora of new and interesting trends and

⁶ <https://chinafilmbiz.com/>

developments. These new online mechanisms and technologies have created new avenues of research for scholars and it is important that the scholarship engages with these new phenomena, their procedures and processes, their further developments and expansions, and the complexities and issues these new technologies have introduced. It is of paramount importance that contemporary scholarship engages with these developments, not only documenting recent trends within film industry practices, but also offer practical guidance that will improve the knowledge and understanding of industry insiders and practitioners, and assist future developments within online film distribution and exhibition.

My research is particularly indebted to the work of Michael Curtin (2007). Curtin's research explored the unique trajectories taken by the Chinese film and television industries since China's economic expansion and examined the Chinese culture industry's increasing penchant towards merchandising. Curtin argues that government policy has greatly influenced the media industries in China, stating that '[a]lthough market forces have been primary engines of cultural production and circulation in the modern era, the boundaries and contours of markets are subject to political interventions that enable, shape and attenuate the dynamics of media capital' (22). Curtin utilises the terms 'Capitalist Paternalism' and 'State Paternalism' to refer to what is commonly described as 'Chinese national capitalism', and suggests that China's capitalist-oriented developments cultivated the emergence of a new Chinese bourgeoisie and new business management practices within modern Chinese enterprises. Additionally, Curtin argues that the popularity and commercial success of palace dramas and martial arts films in both the domestic and overseas markets, helped establish transnational co-production practices in China.

Curtin can thus be regarded as the one of the pioneers in the field of Chinese film industry studies. Many of his observations/analyses have inspired further research on the subject and helped bring contemporary Chinese film industry studies to the attention of western academia. However, from Curtin's research, a number of subsequent research questions have arisen. Since Curtin's original publication in 2007, have state policies continued to limit the film industry's creative potential and how have state-owned enterprises changed under the China's more market-oriented system?

Indeed, a significant number of subsequent scholars, myself included, have utilised Curtin's analysis as a launching pad for further discussion.

From a marketing perspective, Eliashberg, Elberse and Leenders (2006) emphasise the economic importance of the Chinese film industry and review its most crucial elements with regards to production, distribution, exhibition, and consumption, while also highlighting potential future research avenues (551-765).

Michael Keane's contributions to the study of the Chinese film industry have also greatly influenced my own research. Keane has been studying the media industries in China for over two decades (2001, 2006, 2007, 2010). As China's contemporary culture industries have become increasingly culturally relevant, influential and globally expansive, they have attracted greater academic attention from scholars around the world. Keane's works responds to this increased academic interest and the tendency of scholars to position China within a global context.

Keane's most recent research (2016) focuses on 'labour' within the Chinese film industry. In China, the term industry has an ever-present relationship with economic modernisation. Policy documents emanating from Beijing, particularly the five-year economic and social plans allocating government resources, emphasise the industrialisation of welfare, manufacturing, education, and even culture. Whereas the English word industry comes from the Latin, *industia* and refers to 'diligence, activity and zeal', the dominant term in China until relatively recently was *gongye*, literally the 'activity of physical labor' (Keane, 2016, 218).

Wendy Su is also an important scholar with regards to the study of the Chinese film industry. Her book, *China's Encounter with Global Hollywood* (2016) is particularly illuminating, focusing upon the relationship between the U.S. and Chinese film industries, examining 'the role of Hollywood cinema in China's cultural modernization project and how Hollywood's technology, capital, and experience with genre filmmaking fit the Chinese government's agenda of transforming the domestic film industry and enhancing China's 'soft power'(6-7). Su argues that 'the Chinese government has effectively consolidated its authoritarian power through both an alliance and a tug-of-war with global capital and through the advancement of film-inclusive cultural industries'(7).

Additionally, Laikwan Pang (2006 and 2011), Emilie Yueh-yu Yeh and Darrel William Davis (2010), Ainhua Marzol Aranburu (2017), and Mark Lorenzen (2007 and 2008) have all contributed significantly to the field of Asian film industry studies, and their research has helped shape my own research interests and inspired my thinking on the contemporary Chinese film industry.

It may be argued that Chinese scholars have a number of advantages over their western counterparts in understanding the history of the Chinese film industry and the wider social, economic and culture determinants that shape the industry. This insight also grants Chinese scholars a more nuanced understand contemporary Chinese filmmaking trends and practices. Given this fact, my research incorporates a significant amount of Chinese scholarship and research materials. Owing to the relative novelty of global academia's interest in the Chinese film industry, many nationally-produced studies have yet to be translated into English. This has ultimately resulted in a certain amount of delay in the broader dissemination of relevant and, at times, innovative information and research, and, in many cases, valuable research has been subsequently overlooked or disregarded.

Some significant Chinese studies dedicated to the Chinese film industry therefore need be addressed and highlighted, as these sources have served as a considerable influence on my own research. My research is particularly indebted to the work of YIN Hong. His the most significant contribution to the study of the Chinese film industry is the *Annual Memo of the Chinese Film Industry*, which originated in 2002 and has been produced every year since. YIN Hong's latest work , *The Way of Change to Solution: The Chinese Film Industry Since the New Century* (2019) provides a panoramic overview of the Chinese film industry from 2002 to 2018. In addition, other important pieces of Chinese scholarship include YU Li's publication, *Film Marketing* (2015); JIN Yihong's study of China's literature and art policies, and their impact on the development of Chinese film (2014); ZHANG Yan, TAN Zheng, LIU Hanwen's *Reviewing China's Film Industry after Joining WTO: a Global Perspective* (2015) and HE Chungeng's research on policy development within the Chinese film industry (2012). These studies all discuss the film industry from a variety of enlightening perspectives. I will discuss these scholars and their findings in greater detail in the subsequent chapters.

The subsequent section of the literature review will focus more specifically on research pertaining to the film industry. I will build the literature review around the four subsequent chapters of this thesis. That is to say, I will focus my review of literature on policy, production, distribution, and exhibition, as these sections constitute the main links in the traditional film industry chain. I will point out previous academic contributions, as well as relevant studies of other national film industries, that have strongly influenced my own research practices. Additionally, this section will inform the reader of relevant Chinese language resources, with the aim of highlighting the contributions of earlier scholars and positioning my own research within the context of the previous scholarship.

Traditionally speaking, the film industry is said to be made up of three key stages: production, distribution and exhibition. Different types of entities and industry participants such as studios, independent production companies, independent distributors, large exhibition franchises and small exhibitors can participate in each stage of the industry. Goldsmith and O'Regan (2005) have researched global film studios, while Eliashberg (2005) has commented on how large studios and entertainment companies also vertically and horizontally integrate across more than one or even all these stages. These three stages have been universally utilised as the framework for researching film industries within a given territory. Much of the scholarship on film industries is dedicated to the study of the North American film industry, where the filmmaking infrastructure is mature and, to a significant extent, market oriented. Most academics believe that China, similar to some other post-communist countries, has inherited a centralised and planning-oriented film industry in which all industry stages were controlled by or subject to the intervention of the government (Iordanova, 2003). However, although China is still a communist country in ideology and politics, the modern Chinese film industry is evolving in a manner that is akin to that of their North American counterparts, owing to the strong market foundations and the high commercial expectations.

To support my research of the Chinese film industry, I will not only utilise but expand and build upon industry studies that focus upon the North American film industry. That said, where necessary, additional literature on the various European film industry

models will also be employed to compare and contrast with the modern Chinese film industry. I will examine the Chinese film industry by analysing the stage of policies and three conventional stages of production, distribution and exhibition. Subjects at each stage are selected from relevant literature that best exemplify contemporary trends and developments within the Chinese film industry.

1.7.1 Policy Research

Policy making and legislation

Keane (2001) addresses the manner in which cultural and media policy have been made and implemented in China, suggesting that cultural producers and intellectuals have the capacity to influence policy interpretation and implementation, although they do not play any substantive role in policy formulation. In western countries such as the U.S. and the U.K., producers and distributors attempt to influence decisions at the policy formulation stage, often by lobbying. This is because once the policy is formulated, it will be entered into law with no possibility of amendment at the implementation stage. However, China operates a radically different system of political communication to that of the U.S. or U.K. Political communication and policy formulation in China is based around a set of documents, such as published guidelines and plans, reports, oral communications and speeches made by the top officials of the political hierarchy, with the documentation often being imprecise and vague in language (Shi, 1997). The original document is usually followed by a series of subsequent articles used to extemporise the significance of the policy described in the document and offer policy interpretation. These interpretations can be influenced by producers and intellectuals for their interests, and eventually implemented on their merits (Keane, 2001).

Keane (2001) also explains and introduces typical terms in the documentation and gives some examples of the vague policies conveyed in such documentation. For example, according to the weightings, the documents, regardless of their form, can be entitled as *fangzhen* (guiding principle), *zhengce* (policy), *guiding* (stipulation) and *guizhang* (regulation). The content of these documents covers many aspects in the cultural industries such as 'two forms' *fangzhen* (art for socialism and the people), 'the double

hundred' *zhengce* (allowing a hundred flowers to bloom, a hundred schools of thought to contend) and 'two hands' *zhengce* (one hand holding tight for management and the other hand relaxed for autonomy)(795).

However, the current research on the policy formation process in China is largely outdated. The legislation in cultural industries, especially the film industry in China has undergone substantial reform. In order to facilitate more transparent and healthy growth within the Chinese film industry, the Chinese People's Congress (Chinese legislature) passed a draft law in 2015 with specific content aimed to promote development within the Chinese film industry. This change can be seen as a milestone for the modern Chinese film industry and it will undoubtedly be profoundly influential on future legislation and policy making in the future I will discuss this issue in more detail in the following chapters.

The Role of the State

After China proclaimed itself to be a People's Republic in 1949, film would become a tool of the state and utilised in the service of their ideological goals. Thus, the infrastructural framework of film production would be built upon a system of national subsidies, central planning, and the strict supervision of output. Operating under the socialist creed, the cinema of the PRC was imbued with convictions of national authenticity and party-state sovereignty (Davis & Yeh, 2008, 37).

However, by the 1980s the state-backed cinema would begin to show signs of decline, as the socialist system was riddled with inefficiencies and characterised by mismanagement. Consequently, notions of reform and increasing economic openness were proposed as sweeping reforms were initiated in order to save the Chinese industry from complete collapse. Out of sheer necessity – and indeed desperation – market practices were introduced to the Chinese cinema in an effort to rejuvenate the industry. As a result, cinema, like many other industries in the 1980s and 1990s, experienced a series of structural reforms, gradually transforming what had previously been an instrument of state propaganda into a market-oriented, profit-driven enterprise. The communist party accepted the integration of market practices as somewhat of a reluctant inevitability, as illustrated in DENG Xiaoping's famous remark: 'as long as the cat catches mice, who cares if it's black or white?' (Davis & Yeh, 2008, 37).

The switch to a quasi-capitalist system was by no means straightforward. Due to the fact that under the single-party socialist system the media played a crucial role in maintaining the ideology of the state, marketisation was introduced to the film industry with some degree of trepidation. Thus, an infrastructure was needed that would implement free market reforms but allow control of the cinema to remain under the jurisdiction of the state. So, rather than completely privatising the economy, as Russia and Eastern Europe had done, China opted to introduce market mechanisms to its state-owned enterprises (SOEs). These firms were then allowed to convert into shareholding corporations. The corporatisation of SOEs let state proxies gain a crucial foothold in the nascent market. Such measures thus served to differentiate the marketisation of the Chinese film industry from a typical capitalist economy, giving rise to new terminology such as the 'socialist market economy' (Zhu, 2002) or a market economy with Chinese characteristics (Davis & Yeh, 2008, 37-38).

Soft power: principles behind policies

Wendy Su (2002) suggests that the Chinese version of 'soft power' is primarily composed of four key aspects: (1) the 'socialist core-values system' that highlights Marxism, 'socialism with Chinese characteristics', patriotism and collectivism; (2) an 'harmonious culture' and a morally uplifting society based on honesty and integrity; (3) the exaltation of traditional Chinese culture to foster 'a spiritual home commonly identified by the entire Chinese nation'; and (4) the innovation of culture and the liberalisation of the 'cultural production force' (Hu, 2007, cited in Su 2010, 317).

According to ZHOU Yuxing (2015), the Chinese government seeks to promote the country's soft power internationally through cinema. China's current censorship system features a dual-track censoring mechanism for films circulated on different platforms, whether that be in cinemas or via home entertainment media, and divergent standards for foreign and independent films compared to domestic and official productions. It has been argued, however, that these convoluted processes have become obstacles for artistic creativity. While this dual-track and complex censorship mechanism allows the state to delegate control of the media to smaller, more manageable governmental departments, and while the current censorship system provides a certain level of market protection for domestic films, it ultimately impedes Chinese films going abroad. As

economic globalisation and new media technology constitute effective forces in opening up and diversifying China's film market, Chinese cinema needs to expand and diversify its cinematic output, despite the government's rigid censorship control. A greater level of pluralism will boost creativity and help China expand its global cultural influence through cinema.

Wendy Su (2014) also analyses the changing role of the Chinese state and its evolving cultural policies during its initial engagement with globalisation between 1994 and 2002. Here, she investigates the impact of state policy on the formation of the domestic film industry, concluding that the state has employed a strategy that takes advantage of Hollywood's resources and experience in order to develop the domestic film industry and promote China's soft power. Therefore, by weaving both market forces and global capital into the state mechanism, the Chinese state has effectively reinforced its authoritarian power through the developing film industry.

Silvio Waisbord and Nancy Morris (2001) suggest that with regards to the relationship between nation-states and media globalisation, there are two dominant viewpoints: one (the state) views media globalisation as a beneficial force for democracy, with the potential to 'bypass government control'. The other equates media globalisation with the unrelenting power of capitalism, suggesting that media conglomerates hinder state projects for self-determination and self-protection. However, according to Wendy Su, the theory of media globalisation (in English) 'has not sufficiently addressed the possibility of a third position, in which the state and media globalization are not two opposite ends of the spectrum, but rather two forces that are both mutually beneficial and competing, like in the case of China' (Su, 2014, 96). Furthermore, nation-states continue to be 'largely absent' in current media and communication studies dedicated to China. A few researchers have defined the state as protectionist or as a 'regulator of communication processes that shape hybridity' (Kraidy, 2005, 156) and see 'self-conscious state interventions' and the policy as essential for commercial operations and market forces (Curtin, 2007, 22). However, how the state intervenes, and the conditions under which the state intervenes, remain unexplored.

In accordance with the western liberal perspectives mentioned above, one popular view maintains that China's WTO entry and the expansion of foreign media corporations will

inevitably undermine the Communist Party's authoritarian control and facilitate greater freedom of the press. For example, News Corporation chief Rupert Murdoch has predicted that international media penetration in China, as witnessed by his own company's spread of satellite television, will ultimately undermine China's authoritarian government. However, Murdoch would later admit that capability of transnational corporations to challenge the Chinese government's power was limited.

On the other hand, media academic, ZHAO Yuezhi (2008), refutes the 'liberal democratization framework,' arguing that said framework 'underestimates the ability of the Chinese state to negotiate with transnational capital over the terms of entry while maintaining its regime of power in the media' (145). Meanwhile, media academic Anthony Fung (2008), asks the question, 'state and global: enemies or partners?' He argues that the government's strategy is 'to subsume the market into state control so as to ensure the continued existence of hegemony' (30). Fung concludes that the PRC's strategy toward global capital has changed 'from resistance to collaboration'. As a result, 'the state and the market transform each other, and ultimately push China to a higher geopolitical stage'(Su, 2014, 97), thus allowing China to 'become one of the globalizing powers'(Fung, 2008, 35). Fung's argument resonates with Eric Ma's (2000) observation that the Chinese state and the market are 'transforming each other to become new socio-political powers'(Su, 2014, 97). Chinese media experts Michael Keane, Stephanie Hemelryk Donald and Yin Hong (2002), further conceptualise this state-market relationship and the hybrid model of governmentality as 'authoritarian liberalism', a term that differs significantly from 'neoliberalism with Chinese characteristics,' favoured by Zhao (2008), David Harvey (2005) and many others.

JIN Yihong (2014) discusses the influence of policies on the contemporary Chinese film industry. He examines the development history of Chinese cinema and concludes that the relationship between films and policies can reflect, to some extent, contemporary Chinese politics. He employs historical and ideological research to assess the importance of policy research, underscoring the significance of such research within the context of Chinese film industry studies. Yet, Jin's perspective tends to focus disproportionately on the side of propaganda, suggesting that research solely serves the needs of the government. He neglects to consider the other side of the coin and how policy research

can support and benefit industry personnel. Furthermore, because of the dynamic development of China and the Chinese film industry, policy research is an ongoing process that needs to be conducted frequently, with continuously updated information and data.

1.7.2 Production Research

Finance and Budgets

In the production process, financing is, naturally, a very important element. Goettler and Leslie (2004) investigate co-financing practices in China and found that there is little to no evidence to support the claim that studios tend to co-finance films deemed risky. Goettler and Leslie's research also found that co-financing provides limited support for studios wishing to mitigate risk via portfolio diversification. However, co-financing does allow producers to ease release schedule competition, especially for films with large budgets. This is because studios that have co-financed a film can avoid head-to-head competition with other films on their slate, so the risk of the film under performing in its opening week can be reduced (231).

Palia, Ravia and Reisel (2008) provide seven possible methods of co-financing risk reduction, including capital constraints, managerial compromises (filmmakers gain a greater share of the profits if their film can attain co-financing), resource improvements, mutual assistance by sharing specialist skills, resources and expertise, and mutual responsibility (mostly if the project is considered to be of a low quality). These seven factors are widely employed in the North American film industry and can be also found in the Chinese film industry.

However, there are also a number of additional reasons, specific to the Chinese film industry, for favouring co-financing. These include using co-financing methods as a means of establishing a foothold within the industry. However, this particular industry practice is currently under-analysed and only a limited amount of research on the subject has been conducted to date.

Additionally, another increasingly prominent mode of finance in the modern Chinese film industry is sponsorship financing. However, sponsored-financing tends to be more popular when the sponsors are able to embed native advertising for their products into

the film and not necessarily worry about the film's box-office returns. However, to date, relevant research on the practice of sponsorship financing strategies is also lacking.

Finance in the film industries of large developing countries has been discussed by Keane, Ryan and Cunningham (2005) who found that the financial support given to the film industries of both China and Brazil are typically grouped into three principal categories: 'Public support'; 'Private/Corporate investment' and 'Hybrid/Other', but overlaps among these three groups are also common in many cases. The 'Hybrid/Other' category means mixed funding from both the public and the private. Typically, it is the government or private businesses that provide seed funding or start-up capital that leads to further investment from other parties in order to eventually build up co-production enterprises or other joint venture project.

Keane, Ryan and Cunningham also compare the roles played by government in both China and Brazil and the support they offer their respective film industries. In China, the government provides a large amount of funding and takes significant financial responsibility for building and reforming its film production and distribution companies, encourages them to commercialise output and attract commercial investment. The government then increases the taxation on the industry in order to make a return on its investment. Alternatively, the Brazilian government has tended to provide limited capital as seed funding to attract other private investors, this has been to the detriment of Brazilian film production.

Risks and IP Management

Desai, Loeb and Veblen (2002) describe three major risks in producing a film: completion risk, performance risk and financial risk, the three of which are tightly bound. If there is inadequate investment, film production will have to be postponed or left incomplete. Discontinuous production will then cause the loss of motivation from both the project employees such as actors/actresses, directors and other industry personnel, both above and below the line. Disruption in the production can also impact upon other industry sectors such as distributors, exhibitors and ultimately the consumers; and such loss directly reduces the return of a cinematic project. Any reduction in return is a financial risk for the investors of a project.

To reduce the risk, Eliashberg et al. (2006) argues that studios are continuously pursuing intellectual properties (IP) that have demonstrated their success and promise in the marketplace. This is because ‘studios are capitalizing on brand equity. The popularity of film sequels best exemplifies this trend’(Eliashberg, Elberse, & Leenders, 2006, 642). Such a strategy has also been commonly used in the Hong Kong film industry and some of Hong Kong’s most successful martial art and comedy films have had several sequels, which helped the industry thrive and prosper during the 1980s and 1990s (Pang, 2006). However, sequels cannot guarantee success, and it often seems that it is difficult to catch lightning in a bottle twice, with many sequels being criticised for lacking the creativity of the originals.

A number of academics have engaged with the issue of sequels. Sood and Dreze (2006), for example, found that a sequel using a numbered title (e.g. *Daredevil 2*) tend to attract a lower box-office return than those that utilise a more descriptive title (e.g. *Daredevil: Taking it to the Street*). Sequels in Mainland China have gained popularity in recent years with some specially crafted original IPs, originating from other forms of media and entertainment such as television programmes, plays and even comedy shows. This type of sequel has proven particularly successful in China, differentiating itself to the North American film industry. However, there is currently very little research dedicated to this uniquely Chinese phenomenon.

Furthermore, one successful film project is typically not enough to maintain a given studio, and studios are compelled to have a number of projects ongoing in various stages of development, and across different genres and film types. It is crucial for a studio to effectively manage its development ‘pipeline’, i.e. a balanced portfolio can help a studio hedge its risks (Ding & Eliashberg, 2002). Finding the optimal portfolio of film types such as genre, storyline, age range and star power, has become an interesting and important subject for both studios and researchers (De Vany & Walls, 2002). However, most of the Chinese studios are currently weak when it comes to strategic planning and IP portfolio management, and many industry participants have realised this. I will analyse this issue within the production chapter.

Production Decision Making

One important issue with regards to production is the decision-making process, and from this emerge two, at times, puzzling questions. Firstly, how do films widely regarded as box-office poison ever get made? Secondly, why do certain high earning box-office films get rejected by many of the bigger studios before finally getting produced elsewhere? (Eliashberg, 2005)

Caves (2001) blames the above examples on the production company's decision making strategy, i.e. the initial decision to approve or decline a project. This strategy can be very costly. As explained by Elberse (2002), neither the cost nor the revenue (box-office) of a cinematic work can be estimated with an adequate degree of accuracy to guide the initial decision prior to production. Making a film is similar to any large-scale investment, where uncertainties will cause over-expenditure within the budget. The audience's reception of a film, cannot be predicted with any degree of certainty, even after the film has been marketed and screened, and the influence of 'word-of-mouth' has turned an epic masterpiece into a financial catastrophe or vice versa. Any predictions on the box-office returns of a given film prior to production are always somewhat of a gamble. However, the decision must still be made regardless of the inevitable uncertainty surrounding it. Eliashberg, Elberse and Leenders (2006) highlight the decision making process of a senior executive of a major studio, who states:

We ask ourselves whether we can recover our production costs, and whether there is room to spend on marketing. In the end, though, it comes down to the fact that someone has to sign off on the deal and put his or her reputation on the line and say 'yes' or 'no'- regardless of whether the numbers add up (641).

Shugan (2000) suggests that the team evaluation approach, in which information about the past performance of production team members, can be used as credible predictors of the production costs and outcomes. Teams with high credibility normally offer more transferrable skills and expertise from their previous work, which can be applied to a new project, indicating more predictable costs and returns. Additionally, by using pilot shows after the completion of film production but prior to the film's wider distribution, box-office predictions can be more accurately forecast and a marketing strategy can be adjusted (Neelamegham & Chintagunta., 1999; Shugan & Swait, 2000).

Contractual Arrangements

Scholars have investigated the hiring strategies employed by the studios. The purpose of hiring strategies is to enable a producer to find the most suitable cast and crew to maximise the box-office, but minimise the cost of the production. For casting, star power has been seen as having an important effect on production. Albert (1998) has demonstrated empirically that stars are the most consistent means of ensuring a film's success, and it is the star that holds a disproportionate amount of power in Hollywood as a result. However, by using probability-modelling techniques, De Vany and Walls (1999) believes that it is the audience that ultimately determines the success of a given film, and the power of stars has been exaggerated, although he De Vany does acknowledge that stars do indeed have some degree of influence on the appeal of a given film.

Nevertheless, the decision to hire stars on high budget film productions takes endogeneity into account (Shugan S., 2004). For example, a higher budget allows studios to hire more expensive stars, and high-profile stars also attract investors, promising a higher budget for production (Eliashberg, 2005). Similar endogeneity can be also found in the Chinese film industry, albeit with some vernacular traits and features, but relevant literature on this subject is, again, lacking. In the Chinese film industry, the mechanisms of production are somewhat different. Not only does China not have a studio-central system but also, China does not have standardised contracting protocol between studios, stars and their brokers.

1.7.3 Distribution Research

Distributors and Ownership

Eliashberg et al. (2006) divides American distributors into two main categories; the 'majors' and the 'independents', measuring their gross revenue rather than profit. The 'major' distributors include Paramount (Viacom), Columbia Trista (Sony) and Twentieth Century Fox, companies that produce, finance and distribute their own films, while also financing and distributing independent works. Independent production companies

enter their films into either an established distribution process sponsored by big firms or use independent distributors with specially targeted markets or audiences. Interestingly, distributors situated somewhere between the 'majors' and 'independents' are becoming a rising force within the industry. This group of in-between distributors also generally have production and distribution capabilities, although their activities tend to be of a smaller scale to that of the 'majors' (Vogel 2001). This is because, firstly, smaller distributors have begun to distribute bigger film franchises, New Line Cinema distributed *The Lord of the Rings* (Peter Jackson, 2001-2003) trilogy, for example. Secondly, most of the 'major' distributors have established their own 'independent' subsidiaries with autonomous management to produce and distribute non-mainstream films.

Until the 1980s, distribution in China was controlled by the government at a time when propaganda films were the main type of film produced. Given that a film market did not truly exist in China during this time, the distributor had a simple job to deliver the films from state-owned studios to state-owned cinemas (Montgomery, 2004). In the 1990s, the government gradually allowed the trading of films and the film market in China started showing its great potential. The government then re-organised its resources and established China Film Group Corporation (CFGC) to function as a proper distributor. However, the CFGC remains the only distributor controlling copy rights or import quotas in China. Although Huaxia Film Distribution was established by the state to balance the market in 2003, film distribution in China is still not competitive (Rosen, 2003).

However, since 2010, distribution in China has been undergoing accelerated development, with an increasing number of private enterprises entering the distribution market, despite the fact that the CFGC and Huaxia still occupy the position of China's top two grossing distributors (Entgroup, 2013-2015 report). However, many of the new industry participants are either conglomerates or originate from other industries outside of the film industry. These include Internet companies such as Alibaba and real estate companies like Wanda, companies with large capital resources but limited experience in the film business. Once again, the development of private distributors in China is a relatively new phenomenon and, as a result, there is a gap within the current research that it is hoped that this thesis will address and fill.

Timing of Film Releases

In China, the timing of a film's release and its position within the release schedule have become an extremely important factors, significantly determining the success or failure of a given film. If a film does not have a strong opening, it usually fails to attract any the necessary attention from the media, audiences, and exhibitors, and is quickly pulled from the release schedule.

To date, a number of studies have focused on the competition and seasonality of domestic film markets. Krider and Weinberg (1998), for example, have investigated the timing issue within a North American context. Their study focuses upon the competition between films released over a single summer season. Krider and Weinberg (1998) utilised three different equilibrium configurations as a means of exploring the issue of seasonal timing and competition: 1) a single equilibrium, whereby both films opened at the beginning of the season. In this case, both had long legs (run length) and so the loss from delay outweighs the loss from competition; 2) a single equilibrium, in which one film opened at the beginning of the season while the other was delayed. That is to say, the film with long legs opened at the beginning of the season and the one with short legs is delayed; and 3) a dual equilibria, in which either film is delayed if both have short legs and they can benefit from not engaging in head to head competition.

Kirder and Weinberg (1998) have also empirically tested the impact of run length and release timing on box office figures, using the data taken from 24 major films released during the summer of 1990. The results showed that more successful films are released closer to the beginning of the season but that it is hard to predict box office figures based upon the life cycle of a film due to the uncertainty surrounding the audience's reception.

The decisions regarding the release schedule and concerns surrounding seasonality have also been explored by Einav (2008) in his study of the North American exhibition market. He distinguishes two forms of seasonality; underlying and observed, claiming that underlying seasonality may differ from observed seasonality when distributors release their popular titles on big weekends, increasing the underlying demand. In addition, Einav also indicates that film distributors over-cluster their release schedules, and there

are often too many competing films released on big weekends. He therefore argues that the industry could potentially be more profitable by spreading out release dates.

Additionally, the issue of the optimal timing for releases in international film markets has become more significant as the international markets have become an increasingly important source of revenue. There are many companies in Hollywood that generate higher net revenues overseas than domestically. Most of these companies still use either a simultaneous release strategy or a sequential release strategy. Elberse (2002) found that some distributors favour a simultaneous release, because interest can be saved on investments and the risk of piracy is somewhat reduced. A simultaneous release also allows a film to capitalise on the 'buzz' generated from its marketing and release.

On the other hand, the additional cost of prints, the time it takes to subtitle the film, and the opportunity to learn from the North American market performance and adjust marketing strategies for foreign releases accordingly, has made a sequential release strategies increasingly beneficial to distributors. Elberse and Eliashberg (2003) found an association between the North American and European market performance of a film if using a sequential release strategy. The association implies that, if the film performs well in the North American, it is worth scheduling the European release close to the film's domestic release.

The timing of distribution in the Chinese film industry is particularly important. In China, the seasonal influences on showing a film are stronger than the North American because although there are more public holidays in China, employees are entitled to much less annual leave, according to Chinese labour law. Thus, most Chinese citizens have to take their holidays at the same time. As a result, no Chinese distributor can afford to miss the window of opportunity that the public holidays provide.

Marketing

The distribution stage also considers not only the distributing of prints to cinemas, but also marketing activities such as advertising. Distributors spend large amounts of capital to advertise their films (Eliashberg, 2005). The study has established a link between advertising expenditure and total box-office income, and a positive relationship between advertising and a weekly or cumulative revenue has been found by Moul (2006).

One alternative advertising vehicle is word-of-mouth and is a particularly important driver of success for entertainment-oriented goods, because such goods are often consumed collectively and feature in the daily conversations of consumers. Additionally, such practices may require a less traditional allocation of advertising spending across media types (Chevalier and Mayzlin 2003). Meanwhile, the emergence of online, word-of-mouth advertising has become a significant impactor on the distribution of a film. Consumers can easily find reviews of a particular film on the Internet and decide accordingly whether they are interested in the film and wish to spend money on it. Therefore, distributors have begun to invest more to advertise their latest releases on online platforms and domains (Godes and Mayzlin 2004).

Iordanova (2012) focuses upon the marketing and distribution of epic films. Here, she emphasises the importance of reaching out to global audiences by ensuring distribution deals are made in multiple territories. The strategy used for distributing Chinese epic films usually employs the established Hollywood global marketing machine in combination with some other distributors in European and Latin countries, thus ensuring that the film achieves maximum coverage within these territories. Meanwhile, this set-up of distributor combinations, is also used to distribute Hollywood blockbusters and vice versa. However, the distribution strategy used for epic Indian films is different and diaspora-oriented Indian distribution companies usually take the lead, thus this method limits the coverage of territories to countries with significant Indian diasporic presence. The specific type of the audience determines the pattern of distribution, and one must be culturally sensitive when approaching these matters (Iordanova, 2012).

In terms of marketing films in other countries, particularly marketing Hollywood films in China, institutional, the cultural and political disjunctures of marketing have been discussed and analysed (Curtin, Jacks, & Li, 2015). Hollywood marketers are having obstacles from asynchronous release times of Hollywood films and the popularity of online film streaming. Efforts made by marketers may result in adverse impacts because viewers will search unlicensed transactions due to prevailing pirate in both online and physical forms in China.

Beyond Traditional Distribution

Iordanova and Cunningham's 2012 book, *Digital Disruption: Cinema Moves On-line*, outlines the essential features of the new digital dynamics of world cinema. Iordanova emphasises that 'it is a democratising process. Having moved on-line, film becomes liberated from the tyranny of geography: the new distribution set-up permits unrestrained availability of distinctive products' (23). Distribution is also not limited to the actual act of physical distribution of prints to the cinema. Drake (2008) has conceptualised Hollywood as a rights industry where major studios are in the business of acquiring, licensing and regulating media rights over global distribution networks. The rise of digital technologies allows distributors to vary the products (the embodiment of certain right of a type of art or entertainment) that they distribute. Cinema is no longer the only place to screen distributed products. Interesting subjects such as the time between cinematic and non-cinematic release windows have increasingly attracted the interest of researchers, and one conclusion made by Eliashberg (2005) is that the time between windows has and will continue to shorten. Another interesting subject surrounding distribution is piracy, especially when various products are released sequentially (Peitz and Waelbroeck 2004). However, Eliashberg (2005) still believes that, generally speaking, digital technology benefits the industry and fortifies the distribution networks.

Integration with Production and Exhibition

The integration of production and distribution is able to make both processes more efficient and cost effective. Iordanova (2003) believes that distribution can be embedded into certain modes of exhibition, such as the film festival, because the 'form of film festivals, works as a complementary distribution network' (29). In the context of the Chinese film industry, both forms of integrations can be found.

1.7.4 Exhibition Research

Competition Between Exhibitors

Exhibition refers to activities performed by both cinema chains and individual theatres. Although recent trends in home video entertainment and digital television have been considered threats to conventional cinematic practices, the number of cinema goers continues to increase in most film markets thanks to the improved facilities. These

include bigger screens, more comfortable seating, improved sound and picture presentation and the provision of a range of ancillary services (Eliashberg 2005).

One particularly interesting research area is the optimum number of screens in a specific country or region. Eliashberg (2005) states the ground rule used within the industry is that when cinema attendance reaches a frequency of 5.5 times per year per person, at least one screen is needed for every 10,000 people.

Davis (2001) develops a supply and demand model that grants exhibitors – by which he refers to the cinema chains – an optimal scale of operation in order to maximise their productivity and utilisation. Davis found that the under-provision of film screens relative to a socially optimal number, is due to the local style of cinemas. Davis (2003) also argues that the overcapacity of screens in the U.S. is not particularly problematic, despite the fact that some literature has demonstrated saturation within the North American film screens per capita figures.

Eliashberg (2005) argues that the exhibition industry in North America has become highly concentrated and that the number of exhibitors will significantly reduce. Those that remain, however, will grow stronger, acquiring additional assets through mergers and acquisitions. In contrast to the North American film industry, the number of exhibitors within the Chinese film industry has continued to rise. This is largely due to the Chinese film market's accelerated growth and the still-lucrative market potential of the exhibition sector, which has encouraged newcomers to enter the industry as exhibitors, bolstered by large commercial commissions. However, how long this cinema rush will be able to sustain is somewhat of a moot point, and the question of whether a similar wave of mergers and acquisitions will wash over Chinese film exhibition sector when the Chinese film market inevitably starts to lose momentum is perhaps more valid. Currently, scarcely any literature has been published on this abovementioned phenomenon, however, it remains a valid topic of research, one that this thesis seeks to address.

The Relationship between Distributors and Exhibitors

The relation between the distributor and exhibitor remains a fascinating yet under-researched subject matter. This is not only the case within the modern Chinese film industry, but the available research within many other national contexts also remains

insufficient. Filson (2005), for example, investigates the contractual arrangement between the distributors and exhibitors in North America. Here, he highlights the issue of disproportionate revenue sharing, which Filson claims is caused by the difficulties surrounding the forecasting of revenue, rather than the asymmetric information used by two parties.

Gil (2007), alternatively, investigates the vertical integrative relationship between distribution and exhibition in the Italian film industry, in which he ascertains that integrated distributors are more likely to distribute films with higher re-negotiation frequencies in their own and/or affiliated cinemas .

XIA Weiguo and ZHANG Xu's (2017) research on the consolidation of cinema chains engages with both the internal and external factors surrounding cinema consolidation. These include internal incentives; external enforcement; internal constraints; and external resistance. I will discuss cinema chains consolidation from these four dimensions in the exhibition chapter.

1.8 Thesis Outline

This thesis provides a macro-level study of the contemporary Chinese film industry, with focus given to four key areas of research, namely policy, production, distribution and exhibition. These four study areas provide a fitting entry point to better understand the shifting dynamics of the Chinese film industry between 2010 and 2016.

The thesis is structured around two parts. The first part includes the **Introductory chapter** and the **Industrial Context** chapter. It provides the reader with the necessary foundational knowledge needed to fully understand contemporary industry practices. **Industrial Context** chapter seeks to provide context, introducing the reader to key concepts, features and trends relevant to the Chinese film industry, and the broader ideological and political status of contemporary China. This chapter also seeks explore some of the recent changes and innovations within the Chinese film industry; including matters pertaining to audiences; ownership diversification, the hierarchy of film industry authorities, and foreign investment.

The second part includes four main chapters. Chapter one will engage with the current **policies** and practices within the Chinese film industry. In this chapter, I will examine the main pieces of legislations that have come into being between 2010 and 2016. I will then analyse the role of the state, the regulation bodies, and censorship in the establishment and enforcement of film policy. In the conclusion, I will summarise the current issues that have come to light in regard to film policy.

Chapter two will focus on the **production** practices of the contemporary Chinese film industry, examining the key characteristics of film production between 2010 and 2016. Here, I will engage with issues of genres as well as budgets and financing schemes. I will also explore strategies of cooperation through distribution partnerships and co-productions. I will then identify issues within contemporary production practices and explore potential solutions to these issues.

Chapter three will analyse the current characteristics of **distribution** practices in the Chinese film industry. Here, I will highlight the current issues pertaining to distribution and explore potential solutions to the issues.

Chapter four will discuss current **exhibition** practices in the contemporary China. This chapter will examine issues surrounding cinema chains, cinema facilities, box-office revenue and ticket pricing. I will analyse the main players in Chinese film exhibition, their operational strategies, and screening schedules. I will then highlight the current difficulties in Chinese exhibition practices and explore potential solutions to these issues.

The concluding chapter will summarise the previous chapters and present a holistic conclusion of the state of the contemporary Chinese film industry. This will be followed by a number of predictions regarding future industry developments in the Chinese film industry as well as areas of potential future research.

2. Industrial Context

In this chapter, I seek to expound upon a number of key concepts and practices relevant to the Chinese film industry. These contextual background details will also support and enhance the systematic analysis presented in the later chapters.

2.1 The Ideological and Political Principles of the Chinese Film Industry

Prior to the millennium, film in China was seldom seen as an art form, nor was it viewed as a commodity. This was due to the government's dominant role and influence within the film industry. PENG Jixiang (2002, 201) suggests that before 1949, most Chinese films functioned as a conduit of propaganda, utilised in the service of the state. Between 1949 to 1976, films were produced mainly for educational purposes, indoctrinating citizens in the ideology of Chinese communism. Even during the early years of the post-communist economic reforms, Head of State DENG Xiaoping, a man considered relatively liberal and reform-minded after opening China to the global market, continued to emphasise the importance of film as a tool of propaganda used to support the political regime (108).

Since the beginning of the 21st century, the Chinese film market has blossomed, benefitting exponentially from the liberalised economy and the increase in household income. During this period, the Chinese government realised that the film industry played a fundamental role in the expansion of the national economy, rather than merely functioning serving the regime (Su, 2014).

Su (2010) suggests that by weaving market forces and global capital into the state mechanism, the state effectively reinforced its authoritarian power within the developing film industry. Su maintains that this Chinese version of 'soft power' is composed of four primary aspects: (1) the 'socialist core value system' that emphasises Marxism, 'socialism with Chinese characteristics', patriotism and collectivism; (2) a 'harmonious culture' and a morally uplifting society based on honesty and integrity; (3) the celebration of traditional Chinese culture and the desire to foster 'a spiritual home commonly identified by the entire Chinese nation'; and (4) the innovation of culture and

the liberalisation of the 'cultural production force'(317).

The Ideological Framework of China is including Confucianism, Marxism and Communism.

(1) Confucianism

Confucianism is a system of ethics widely recognised as the basis of Chinese morality and culture. Although Confucianism has developed over time and deviated somewhat from its origins, its core ideology, 'rú 儒' meaning 'to educate' or 'to refine', has never changed. This ideology of Confucianism has prevailed for thousands of years, encompassing many different governing bodies and social institutions. Confucianism's sustained relevancy stems from its advocacy of the social value of education, as well as its championing of humanist values surrounding family, proper social conduct and obedience to hierarchy. Such values serve to consolidate the political regime and its existing social structures. The arts are thus given a socialising function, fulfilling the ideology of the state, which is granted moral legitimacy by Confucianism. Governing bodies can thus indoctrinate citizens in subtle, non-coercive ways using the arts. For much of China's history, the arts have served the political status quo in this way.

(2) Marxism and Communism

The ideology of Marxism and Communism are relatively new to China, and like Confucianism, advocate the educational utility of the arts. As Chen states, '[n]ot only did Marxism direct the Chinese revolution, but [it] also directed the arts and culture in [the] PRC...' (Chen B. , 1951). Chinese Marxism was strongly influenced by that of the Soviet Union. When the PRC was founded, the Chinese communist party draw upon the ideological and social framework established by the Soviet Union, mirroring its infrastructures, from its political and economic systems to its approach to art and culture. Under the Soviet Union, art and culture was subject to political control and utilised as a means of cementing the ideological legitimacy of communism. Art and culture was thus produced and regulated at a national strategic level and their independence was severely limited (Jin Y. , 2014, 39). The Chinese communist party would adopt a similar framework for managing and regulating arts and culture even before the establishment

of the PRC.

During the pre-communist years, cultural and artistic products such as novels, music, and dramas, were invariably introduced to China by individuals and groups unaffiliated with communism. However, at the same time, the Soviet Union had a profound influence upon Chinese culture during this period, and the ideology of communism was largely espoused, especially amongst the elites. The rise of Mao after the Long March of 1934-1935 consolidated the power of the Chinese communist party and the regime began to deploy art and culture for educational and propagandist ends soon after. Art and culture's need to serve the party became a mandatory requirement. After the establishment of the PRC, the systemic deployment of the 'Soviet Model', including its highly regulated management of art and culture came to characterise the years prior to the Soviet-Sino breakdown (1956–1966).

In 1957, Mao directly ordered that all media and artwork should teach people to embrace the communist ideology and prepare for the enduring task of achieving fully-fledged communism. Artists and cultural producers thus needed to be educated accordingly.

Since Mao, all Chinese leaders have openly stated that the role of arts has been to educate and have systemically deployed this concept in their leadership. Thus, the educational role of art is deeply rooted in the Chinese mindset. Institutions such as art and cultural organisations, performing groups and art schools could only be owned by the state and employed in service of the regime's ideology (Soviet Literature and Arts Issue, 1959, 53, 64).

Accordingly, contemporary governing bodies have embraced these traditional policies on art and culture, welcoming their Soviet and Confucian traditions. Thousands of years of 'ru' teachings have indoctrinated citizens into believing in the authority of the state and the morality of state's right to educate citizens to respect and honour this authority, to which art and culture have played a fundamental role. The Soviet Union provided specific approaches with regards to policymaking and regulation, but this stance towards art and culture has a long tradition in China that extends well beyond communism.

2.2 Hierarchy of the Authorities of the Chinese Film Industry

When examining the power structures within the Chinese film Industry, one cannot neglect to mention the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT). SAPPRFT operate under the State Council of the People's Republic of China and its main role is the administration and supervision of any Chinese enterprises, organisations and/or individuals engaged in the television, radio, and film industries. SAPPRFT is also responsible for censoring any materials deemed offensive to the sensibilities of the Chinese government or Chinese cultural standards.

In 1986 the State Council Ministry of Culture (MoC), the Film Council and the Department of Radio and Television merged to form the Film and Television Bureau. On 25 June 1998, the Film and Television Bureau was restructured as the State Administration of Radio, Film and Television. In March 2013, the State Council announced plans to merge the State Administration of Radio, Film, and Television (SARFT) with the General Administration of Press and Publication (GAPP) to form the *General Administration of Press and Publication, Radio, Film, and Television*.

As ZHOU Yuxing (2015) states, the Chinese film industry went through a series of institutional reforms from the mid-1980s. One particular outcome of these reforms was the formation of a multi-level distribution system for film and video in the late-1980s, with censorship of the two overseen by SARFT and GAPP. The establishment of this dual-track censorship system was due to a top-down structural overhaul, which 'put the Film Bureau, previously under the control of the Ministry of Culture, under the leadership of the Ministry of Radio, Film, and Television' (Zhu & Nakajima, 2010, 26). However, an upshot of this dual-track censorship system was that a film banned for theatrical distribution might still enter the market via home entertainment distribution or circulate on the Internet if approved by GAPP (Zhou, 2015). The state thus saw the need to simplify its administrative system and transform government functionality. In 2013, SARFT merged with GAPP to become the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China (SAPPRFT).⁷

The remit of SAPPRFT is vast and wide reaching. To assist the reader, I have presented a

⁷ SAPPRFT's main responsibilities summarising see in *Appendix 4*.

hierarchy of the institutions within the Chinese film industry, mapping their connections and how to relate each other (see Figure 5).

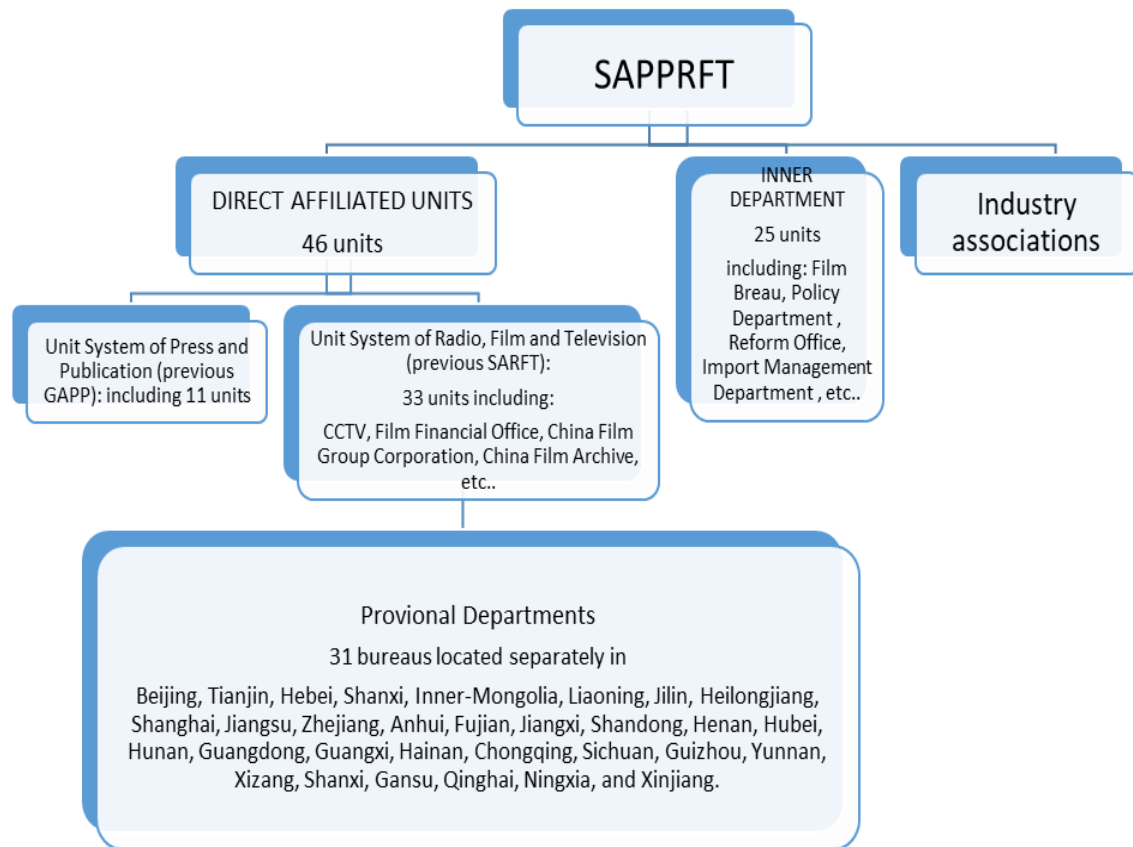


Figure 5 A hierarchy of the institutions within the Chinese film industry

2.3 Ownership Diversification

Prior to 2009, there were over 300 private film corporations in China and 20 state-owned studios operating without vertical or horizontal integration (Song, 2009, 166-167).

With box-office revenues skyrocketing, the number of cinema screens began to rise. Before 2010, little more than a single screen per day opened throughout the country. After this date, however, the number doubled, with entire cinemas being built at a rate surpassing one per day. Cinema construction would continue to escalate in the ensuing years, with 4.2 screens per day being developed in 2010, 8.3 screens per day in 2011,

and 10.5 screens opening daily in 2012 (Leung & Lo, 2015).

From 2010 onwards, Chinese films would acquire an increasing share of the national box-office. Such has been the success of Chinese films in recent years that the highest grossing films of both 2012 and 2013 were produced solely in China. Indeed, over the past fifteen years, the domestic market share has risen from 33 percent to 60 percent (Nilsson, 2015). However, invariably films produced by state-owned film studios, at times working in co-productions, would occupy prominent positions in the yearly top ten highest grossing film lists.

Government involvement and intervention has drastically shaped the Chinese film industry, both historically and in more recent years (Jin Y. , 2014; Zhu & Rosen, 2010; Zhou Y. , 2015; Su, 2014). Understanding government policies has thus become a necessity for anyone involved in the Chinese film industry. It is often perceived that rigorous government intervention ultimately produces obstacles for filmmakers in pursuit of artistic freedom (Pang, 2006 and 2011; Chen , Liu , & Shi, 1997). However, while censorship is indeed a reality in China, in the short term at least, many of the government's policies have benefitted the contemporary film industry. For example, the Chinese film industry has attracted increasing amounts of investment, from both national and international sources, because of the government's generous subsidy and incentive schemes. However, the stringent and inconsistent regulation on the distribution and exhibition of films and other cultural products has been tightly linked to the political agenda of the state and has directly impacted upon the profits of virtually all sectors of the industry (Nilsson, 2015).

Through years of experimentation, China has built a system of policies supporting Chinese enterprises in the global market while simultaneously enabling a system of management best suited to China's specific socio-economic and cultural conditions.

To fully understand the evolution of the Chinese film industry's state-owned enterprises (SOEs), two essential elements must be considered; namely, the wider political and economic influences. Since the millennium, China has witnessed a significant increase in household income stemming from the liberalisation of the economy. With this additional income, citizen had more money to dedicate to leisure pursuits, one notable example being cinema attendance, which subsequently experienced a boom.

These broader market-oriented shifts led further reforms in state-owned enterprises. These economic reforms aimed to transform the management mechanisms of state-owned enterprises, establishing modern enterprises effectual within the market economy (Che, Han, & Zhao, 2008).

2.3.1 State-Owned Enterprises (SOEs)

A state-owned enterprise is a legal entity that undertakes commercial activities on behalf of the state, its owner. SOEs can be fully owned or partially owned by the government. As a definitional issue, it is difficult to determine categorically what level of state ownership would qualify an entity to be considered state-owned since governments can also own regular stocks. For example, in 2007 the China Investment Corporation acquired a ten percent stake in the global investment bank Morgan Stanley, but it is unlikely that this acquisition would qualify Morgan Stanley as a government-owned corporation. Government-owned or state-run enterprises are often the result of corporatisation, a process in which government agencies and departments are re-organised as semi-autonomous corporate entities, sometimes with partial shares listed on the stock exchange.

After 1949, all business entities in the People's Republic of China were owned by the government. In the late 1980s, the government began to reform its state-owned enterprises, and during the 1990s and 2000s, many small and medium-sized state-owned enterprises were privatised. This resulted in a number of different, and somewhat ambiguous corporate forms operating with a mix of public and private capital.

State-owned enterprises are now largely governed by both the State-owned Assets Supervision and Administration Commission (SASAC) of local governments and, in the case of the central government, the SASAC of the State Council. However, some state-owned enterprises are governed by the China Investment Corporation (and its domestic arm, Central Huijin Investment), the Ministry of Education in the case of university-run enterprises, or the Ministry of Finance for certain financial institutions (Che, Han, & Zhao, 2008).

In 1970s, the term 'state-run' was dropped and replaced by 'state-owned.' This slight re-

phrasing reflected the institutional changes taking place during this period. Previously, state-run enterprises were owned and operated by the state, with the government directly managing these enterprises and their employees, severely limiting the decision-making power of the enterprises themselves. Under the market economy, state-owned enterprises were required to separate their government functions from enterprise management, and their ownership rights from management rights. As a result, the state now owns these enterprises but does not directly manage them.

These SOE reforms sought to clearly establish ownership, rights and responsibilities, and power structures, and separate the state's enterprise management from its government functions.⁸

Chinese corporations have pioneered a somewhat unique, modern enterprise system, from the centralised economy to the preliminary shareholding system, to SOEs, right through to the present stage in which large SOEs have become an important force in the country's stock market. Over the past few decades, the Chinese shareholding system has gone through numerous stages of development. For a time, the Chinese shareholding system became a controversial issue because it engaged with the sensitive subject of ownership. Every step forward posed new challenges, from its initial practice in rural areas to the preliminary experimentations in the cities. It was not until the convocation of the 15th CPC National Congress in 1997 that the shareholding system was formally defined as 'a form of capital organization for modern enterprises (Che, Han, & Zhao, 2008).'

A significant component of China's SOE reforms over the past few decades has been the notion of 'grasping the big, and letting go of the small' (Cao, proposal). This policy has led to smaller SOEs being privatised and larger SOEs have been encouraged to increase their size and standing through acquisitions, becoming prominent global players.

While China appears to be moving toward the market economy, repeatedly releasing edicts and guidelines calling for reforms to SOEs (Peng, Shi, & Xu, 2016), its hybrid, semi-liberalised economic system still calls for heavy state involvement regarding the control

⁸ Excerpt from the 'Decision on Several Issues Regarding the Establishment of the System of the Socialist Market Economy,' adopted at the 3rd Plenary Session of the 14th CPC Central Committee in November 1993.

and ownership of businesses (Szamosszegi & Kyle, 2011). China is expected to move ever-closer to a more market-oriented economy, which may ultimately see SOEs become relics of the past. However, the Communist Party of China (CPC) still considers SOEs very important (Szamosszegi & Kyle, 2011), referring to their system as 'socialism with Chinese characteristics' (Graceffo, 2016). Consequently, although China is moving toward a more market driven economy, SOEs still accounted for 40% (43% of profits in the PRC) (Cao, proposal) of the GDP as recently as 2011 (Szamosszegi & Kyle, 2011). According to Credit Suisse, SOEs still dominate China's economy, with the total assets of non-financial SOEs accounting for 60% of the Chinese GDP as of the end of 2013 (Gov.UK, 2016).

China Film Group Corporation

The biggest SOE in the film industry is the China Film Group Corporation (CFG). Founded in 1999, the CFG occupies a dominant position within the Chinese film industry, typically producing over 30 percent of China's filmic output year on year. The CFG also owns the only movie channel on Chinese television, CCTV-6. The CFG conglomerate also includes a share-owned theatre, whose circuit comprises up to 40 percent of the domestic box-office. Furthermore, in 2004, the CFG established a joint venture with Warner Bros and the Hengdian Group, owner of the Hengdian World Studios (Song, 2009).

The CFG is the largest employer within the film industry and is widely considered to be the most influential state-owned film enterprise in China. As a national enterprise, the CFG enjoys access to local resources and is entitled to national film subsidies. The CFG has a strong presence at all stages of the industry, particularly distribution. It is also worth mentioning that the CFG is the only Chinese distributor able to distribute imported films. However, although its production facilities are large, this has not necessarily translated to dominance in the box-office when compared to other, non-state-owned production companies. This could be attributed to the limitations that the CFG faces in terms of the types of film they produce. The films of the CFG are often tied to the state's ideology, potentially leading their films to be considered more traditionalist and conservative.

2.3.2 Privately-Owned Enterprises

Private assets and capital finally became legal in 2004 (IFC 2000, 10-19). Before this, SOEs were the only legal type of business organisation, and virtually all businesses were owned by the government. Since the advent of private property, other forms of business ownership have come to prominence. Company 'ownership forms in China, include domestic privately-owned enterprises (POEs), foreign-controlled businesses (FCBs), and state-owned enterprises (SOEs)' (Ralston, Terpstra-Tong, Terpstra, Wang, & Egrl, 2006).

POEs have been increasing both in terms of their numbers and their percentage contribution to China's total GDP (Ralston et al. 2006, 825-843). However, as private enterprises entered the market, they faced a number of competitive disadvantages when compared to their state-run counterparts. SOEs were granted tax breaks, better access to information and natural resources, better access to bank loans and the support of local governments (Ralston et al. 2006). As a result, SOEs have dominated a number of industries, including the automotive, pharmaceutical, electronics and petrochemical industries, to name but a few.

Entry into SOE dominated fields has often proven difficult for POEs, and many private firms have faced 'glass ceilings' in their pursuit of economic advancement. Theoretically, POEs are permitted to invest in most industrial sectors; however, many sectors are already dominated by SOEs, including mining, financing, banking, rail, aviation, telecommunication, media and education. State monopolies and oligopolies thus create barriers of entry for private firms (Zhang & Freestone, 2013).

Some of China's POEs are smaller, family run businesses, which developed from traditional Chinese clan cultures in which the majority of employees are related. Other POEs began as collectives, whether township or village enterprises (TVE), whereby the people operating the business were eventually allowed to assume control and run the business as a POE, sometimes on a lease basis (Ralston et al. 2006, 825-843).

Generally speaking, POEs tend to perform better than SOEs, which is a considerable achievement considering all of the advantages that SOEs enjoy, such as easy credit and low-cost raw materials. One reason why the POEs outperform SOEs is because of superior managerial prowess. Not only are managers of POEs entrepreneurs, but

because POEs invariably obtain finance from banks, the banks fulfil an oversight function, monitoring their management decisions (Gong, Görg, and Maioli, 2007, 197-214).

In many private firms, the government remains the majority shareholder, especially in the media industry. SAPPRFT monitors both the SOEs and POEs within the Chinese film industry.

In order to stimulate the Chinese film market, the government gradually allowed films to be produced by non-state-owned studios. However, these films faced a stringent censorship process. The diversification of production ownership has encouraged more independent filmmakers to produce films as there is now a much greater chance of getting films distributed and exhibited, despite not being part of, or having connections to, the old production system. At the same time, the diversification of production has encouraged capital investment from both the public and private sectors, and many film projects are now financed with the non-state money. Private studios are less obligated to the political regime, meaning that they can offer more challenging and diverse films. However, the primary goal of these private production companies is financial, and so they tend to produce films that are more audience oriented. Private firms are particularly adept at capitalising upon popular trends that appeal to contemporary audiences.

Since 2003, the restrictions on film production have been reduced and the number of privately-owned production firms has increased dramatically. The liberalisation of restrictions has also attracted a number of private conglomerates and consortiums that have invested in and/or established their own film studios. Perhaps the most famous example is the Wanda Group, one of the largest real estate companies in the world, founded by WANG Jianlin. Wanda has made a number of aggressive corporate acquisitions, including the well-known Hollywood production company Legendary. Apart from Wanda, giant IT companies such as Tencent and Alibaba, have invested enormously in film production. It is worth noting that these industry newcomers do not merely focus on film production, but also distribution and exhibition in order to maximise their presence within the industry and capitalise on their pre-existing assets and business interests - commercial property in the case of Wanda and IT services in the case of Tencent and Alibaba.

Additionally, private production studios have been granted greater levels of flexibility in

terms of financing. Capitalising on the increasing openness of the Chinese economy, a number of privately-owned production firms have gone public, benefitting from the investment accrued by selling shares. Undoubtedly, the increasing openness of Chinese film production has contributed greatly to the on-going development and prosperity of the Chinese film industry.

2.4 Foreign Investment

The publication, production, copying, importing, and/or distribution of audio-visual materials, including digital media, is highly regulated in China, and companies engaged in these activities must apply for the relevant licenses from SARFT⁹. In addition, the importation of audio-visual products is also subject to content approval from SARFT.

Restrictions are also placed on foreign investment when it pertains to the publication, production, copying, importation, and distribution of audio-visual products, including digital media. Wholly foreign owned subsidiaries (with the exception of Hong Kong and Macau investors for certain activities) are generally prohibited.

To promote transparency within the film industry and ensure companies comply with the rules of the state, in 2003 SARFT issued the Provisional Rules on Operation Qualifications for Entry into Film Production, Distribution, and Exhibition (Film Market Entry Rules). The original document was issued on October 29, and came in effect in December, before later being revised on November 10, 2004. According to these rules, foreign investors may only acquire stakes in Chinese film production companies through equity joint ventures or cooperative joint ventures alongside an indigenous production company or companies. Nevertheless, in such cases, these Chinese film production company(ies) are required to have controlling interests in any joint venture.

As a result of this new access to the Chinese film market, the Warner China Film HG Corporation became the first ever Sino-foreign joint venture film company, with Warner Brothers Pictures partnering with China Film Group and Hengdian Group in December 2004. However, attempts to allow foreign investment for film production were

⁹ See Appendix 2.

suspended shortly thereafter (KPMG, 2017).

In July 2005, the PRC Ministry of Culture, SARFT, and several other government institutions issued a circular entitled Opinions on Foreign Investment in Culture Related Areas (Opinions). In it, these various governing bodies jointly voiced a desire to prohibit foreign investment in Chinese film production companies. The prohibition of foreign investment in film production was later stressed in the National Foreign Investment Catalogue Guide, a publication indicating in which industries foreign investment was encouraged, restricted, or prohibited under the current regulatory framework.

As a result, foreign investment in Chinese film production is only permitted on a per-project basis, typically in the form of co-productions, assisted productions, or contracted productions.

Foreign investment is also prohibited within the distribution sector of the Chinese film industry, with the exception of Hong Kong and Macau investors who are permitted to establish wholly owned subsidiaries in China for the distribution of Chinese films. This allowance was added to the supplementary provisions of the Film Market Entry Rules issued by SARFT on March 7, 2005. At the time of writing, the production, distribution and exhibition of films in China, as well the importing and exporting of such films is subject to approval by the relevant authorities, mainly SARFT(KPMG, 2017).

To summarise:

— *Production:*

Foreign investment in the production of audio-visual materials is generally prohibited, with the following exceptions:

- Foreign entities or individuals may co-produce audio-visual products with Chinese publication companies.

—Hong Kong and Macau service providers are permitted to set up a wholly owned subsidiary, equity joint ventures, or cooperative joint ventures in China to undertake the production of audio-visual products.

— *Copying:*

Foreign investment for the manufacturing of recordable disks is permitted in China. In

addition, foreign investors are also permitted to establish equity joint ventures or cooperative joint ventures in China to undertake copying of read-only disks and cassettes, with the Chinese partner having the controlling interests. Foreign investors are prohibited from setting up wholly owned subsidiaries in China for the copying of read-only disks and cassettes.

— Importation:

Foreign investors are prohibited from importing audio-visual products.

— Distribution:

Foreign investors are allowed to set up co-operative joint ventures in China to facilitate the distribution of audio-visual products. The Chinese partner must have the controlling interests (>51%) in any joint venture, and the operations of any joint venture must not exceed 15 years. Such joint ventures are not allowed to import audio-visual products into China.

2.5 Audience Size

The dramatic growth of the Chinese film industry has been made possible by China's large population, which, as of 2016, stood at 1.382 billion (The National Bureau of Statistics of the PRC, 2017). China currently has the world's largest domestic film market and, despite the rapid growth experienced over the last two decades, still has potential for further expansion and development. In 2014 there were 40,000 movie screens in the USA, equating to one screen per 8,000 Americans (Yueh, 2014). By comparison, in China there was one screen per 70,000 Chinese citizens (Entgroup, 2015, 2016). These statistics suggest that the Chinese film market could be significantly larger than the American market if China is able to match America in terms of screens per capita. Consequently, nearly 100 new screens have been opening every week since 2014. The 'Cinema Rush' and 'high box office revenue' are driven by a desire to capitalise on 'the world's biggest audience' (Curtin, 2007).

Audience Distribution and the Trickle-Down Effect

It is the assertion of this thesis that small town audiences hold the potential for future

growth within the Chinese film market. The reason for this can be attributed to what has been labelled the 'trickle-down effect'. The 'trickle-down effect' is a concept used by economists to chart developments within China's economy and social structures more broadly. The model maintains that new and advanced products, technologies and ideas are adopted vertically from the higher classes to the lower classes. The higher classes are typically those that have a higher income/consumption and/or higher social status. The model posits that higher classes are more willing and financially able to adopt novel and up-to-the-minute products or ideas at an earlier stage, when these products, ideas and technologies are at premium price. The adoption of products, concepts and technologies by the higher classes ultimately promote the profile of these new items and ideas, elevating their cultural capital, which in turn elevates their appeal for the lower classes. Additionally, the popularity of early adoption can attract more manufacturers to compete, which ultimately serves to drive down costs. Lower costs and higher cultural capital will then appeal to customers of a lower class, of which there is a much wider potential customer base than in the higher classes (Sowell, 2012).

A similar trickle-down model is useful for discussing trends within the Chinese film market. The film market is currently experiencing a shift whereby the maximum profitability is no longer to be found in the most developed cities of Tier 1 but rather in Tier 3 and even Tier 4 cities.¹⁰ The film market in Tier 1 cities is already somewhat saturated and Tier 2 cities are increasingly going the same way. Therefore, the expansion of the film market in Tier 3 and 4 cities and towns offer the greatest potential profitability for the Chinese film industry. This trickle-down effect from Tier 1 to lower class cities has followed broader trends in China's economic development. While cinema audiences in higher tier cities are made up of a diverse age range, audiences in lower class cities tend

¹⁰ The Chinese media publications introduced a ranking system in the 1980s in order to arrange and prioritise urban development throughout the country. Cities were ranked by tier according to the government's development priorities. The tier system began as a bureaucratic classification but since the late 1990s has been utilised as a hierarchical classification system that provides insight into real estate development, commercial vitality and cosmopolitanism, as well as the old notions of population, economic size, and political ranking. It has now become a proxy for demographic and social segmentation in China, especially relevant to those college-educated seeking non-governmental employment. Tier 1 cities include Beijing, Shanghai, Guangzhou, and Shenzhen; Tier 2 cities include Beihai, Changchun, Changsha, Chengdu, Chongqing, Dalian, Fuzhou, Guiyang, Haikou, Hangzhou, Harbin, Hefei, Huhhot, Jinan, Kunming, Lanzhou, Nanchang, Nanjing, Nanning, Ningbo, Qingdao, Sanya, Shenyang, Shijiazhuang, Suzhou, Taiyuan, Tianjin, Urumqi, Wenzhou, Wuhan, Wuxi, Xiamen, Xi'an, Yinchuan, and Zhengzhou; other small and medium cities are grouped into Tier 3 or 4 cities.

to be of a younger age. These ‘young villagers’ will potentially become the main audience group in China in the years to come and thus presents an opportunity for growth within the Chinese film industry (Diao, 2017).

The market-oriented reforms and increased economic openness initiated by Deng Xiaoping produced a similar trickle-down effect in China’s economic development. Back to the early stage of the economic reforms, high-cost areas and more affluent cities were exclusively privileged in terms of development and renewal, followed by the rest of China. Economic development brought forth greater demand for cultural products, resulting in Tier 1 and Tier 2 cities having more developed cultural industries than their lower level equivalents. As China’s economic reforms expanded, the country underwent - and continues to undergo - the largest urban expansion in human history. Consequently, as Chinese society continues to modernise, the demand for cultural products in lower class cities is likely to increase. This emphasises the tight correlation between the film industry and the national economy more broadly.

However, the trickle-down process inevitably produces inequality in terms of development. Remote or impoverished areas have limited access to cinemas as development in these areas has deemed financially non-viable. Therefore, rather than simply relying on the trickle-down effect, policies for rural development need to be implemented in order to facilitate further growth within the Chinese film market.

However, the boom of the Internet has accelerated the trickling-down process. The Internet provides a low-cost marketing tool for films and cinemas and allows companies to easily disseminate information. The anonymity of the Internet creates a virtual world where everyone is treated equally without prejudice, regardless of class, income level, race, religion or gender. Information from any level of society can be quickly shared via the Internet so that new trends can be swiftly disseminated and embraced, accelerating the trickling-down process.

2.6 The Contemporary Environment

Given the dramatic growth within the Chinese film industry since 2010, an enormous amount of money has flowed into the film market and many new trends and

developments have transpired. A reciprocal relationship has thus emerged in which increased investment has initiated the development of new technologies and phenomena, which have in turn made the Chinese film market a lucrative proposition for further investment. By discussing some of the most significant new trends, we can chart developments within the Chinese film industry and investigate the driving forces behind these happenings.

2.6.1 New VR Technologies

Virtual reality (VR) has become one of the most talked about technologies of recent years. It has attracted a significant amount of attention from the film industry because VR offers audiences new immersive and visceral visual experiences.¹¹ Schwartzel predicts that ‘one thing is certain: Over the next few years, virtual reality will completely reboot your relationship to the moving image’ because virtual reality is ‘shockingly good at making audiences feel as though they are in the midst of the action rather than observing from afar’ (Schwartzel, 2016).

VR technologies came to prominence in 2014. Hollywood has already prepared a number of new scripts or has even re-written classic scripts for VR-based films and some short VR works have already been screened at prominent international film festivals such as Sundance and Tribeca (O’ Falt, 2016; Volpe, 2016). According to Schwartzel (2016), A-list directors such as Ridley Scott and Steven Spielberg are also working on some top-secret VR projects.

In 2016, China witnessed explosive growth within the VR sector, with some major players, like Alibaba and Tencent, entering the sector. China’s Pinta Studios screened its short,

¹¹ However, such new technologies have incited discussion surrounding the very concept of motion pictures. Even before VR became popular, some critics were already debating the ways in which VR will change our engagement with film. For example, American film critic Roger Ebert wrote in 1992: ‘The questions about VR fall into two categories: technical and ethical. The technical questions will take care of themselves; this technology will be perfected. But the ethical questions are extremely interesting. They include: To what degree is it permissible to completely take over another person’s consciousness? Is there a limit to how deeply one person should manipulate another’s experience? Is it right for us to have VR experiences before we have actual experiences to base them on?’ (Ebert, *The Chilling Film Concept*).

animated VR film, *The Dream Collector* (LI Mi, 2017) at the 74th Venice International Film Festival.¹²

VR technology has been widely implemented in China, with CCTV, China's state-owned media corporation, adopting VR technology to broadcast the Spring Festival Gala and basketball games powered by a Beijing-based VR production company. Also, as of the third quarter of 2016, China had over 5,000 offline VR experiential stores, with more scheduled to open in lower-tier Chinese cities in the near future (Shen, 2017).

Furthermore, famous film directors, such as ZHANG Yimou and GAO Qunshu, have announced their intentions to work on VR projects, and have begun conversations with the potential media companies working in VR production.¹³

VR offers a radically different experience to that of traditional cinematic spectatorship. In a traditional film, the director is better able to dictate the attention of the audience through factors such as shot selection, focusing etc. However, with the VR headset, audiences are able to freely explore a 360-degree space and have their own unique immersive experiences. The freedom afforded the audience by VR will also allow users to feel that they are part of the filmic world. This new sensory experience may fundamentally change how films are constructed because narrative engagement now becomes the choice of the individual audience member.

2.6.2 New Types of Filmic Entertainment

One relatively new occurrence within the Chinese film industry is the emergence of various new, hybrid genres. Alternative media formats, such as television programmes, have been amalgamated into the film industry, as seen in the rise of the reality film or the variety show film. Such films offer a number of benefits to producers as they both relatively cost effective and can be produced quickly. Sometimes, the production of a reality film runs in parallel with the production of the original television show from which the film has been adapted, further minimising costs.

¹² Pinta Studios was founded in June 2016 after acquiring CNY 6 million (about USD 909,000) in angel investment in only a month.

¹³ Guoying Chongmei, *Zhang Yimou and Gao Qunshu*. Zhang mainly announced his project in the gaming industry. His Offline Experience Store mainly focuses on offline interactive game experience and can consider multi-person interactive experience for the audience/participants. Zhang has cooperated Store opened in Wangfujing and Beijing Exhibition Hall in July 2016.

Both the reality film and the variety show film have become incredibly popular in China in recent years. In just a few years, these genres have become well established in China. *Running Man* (HU Jia, CEN Junyi, 2015); *Where are we going? Dad*, Season 1 and 2, (CAI Dikui, Linyan, 2014, 2015); and *Emperor's Holidays* (WANG Yuelun, 2015) provide examples of the reality film genre and have all been adapted from popular television programmes. Almost all of these films achieved considerable box office returns.

Nansun Shi, a long serving Hong Kong film producer and a former Senior Advisor to Media Asia Group, has become heavily involved the production of reality films. Shi stated in an interview that such films typically adopt a Digitally Controlled Potentiometers (DCP) production method, a low-cost mode of production accepted by distributors, exhibitors, cinemas and audiences alike. Shi also suggested that while the reality film is a specifically Chinese phenomenon, the format has attracted interest from a number of film industries outside of China in recent years (Wu, 2015).

2.6.3 New Business Models

The Internet, and its related industries, have also begun to greatly influence the Chinese film industry. A number of large and powerful online companies such as Baidu, Alibaba, and Tencent, have expressed an interest in entertainment and culture industries; and their strong investment capabilities, cutting-edge technologies and large and sophisticated consumer databases put them in a favourable position within the industry. The film industry has since become somewhat of a battlefield for competing Internet companies, and their presence can be felt in virtually all aspects of the industry, from production, distribution and exhibition, to ancillary markets. The reason for this is because the Chinese film industry has now fully embraced the digital era (Yin, 2014).

The real estate and leisure giant, Dalian Wanda, and Internet giants such as Baidu, Alibaba and Tencent (dubbed 'BAT' in the Chinese press) have been engaged in a strategic programme to transform 'the operation of the Chinese film industry' (Frater, 2015). Wanda owns the largest cinema chain in China, Tencent is the largest online games distributor in the world, Baidu is China's leading search engine and Alibaba is the world's biggest e-commerce business. These large-scale companies are increasingly seeking to integrate the various roles of the film industry through tactics of expansion,

acquisition or alliance. Their ultimate aims being to inject film production with new, innovative and creative ideas.

Internet giants such as BAT have helped improve the efficiency of the Chinese film industry, and greater considerations have been given to 'Internet thinking' in relation to production, distribution and exhibition (China Film Association & China Federation of Literary and Art Circles Film Centre, 2014, 2015). For example, alternative online fundraising approaches, such as crowdfunding, have been used to finance productions. Official websites are increasingly used as promotional tools, as are micro-blogs, social networking sites and communication apps. Films can be distributed online, with digital copies of films being sent directly to cinemas or online platforms and streaming services. Online ticketing has alleviated the need to purchase tickets at the premises and has allowed audiences to purchase tickets well in advance of screenings. Online companies regularly work alongside cinema franchises so that ticket sales can also be combined with other products and services. The Internet has thus had a profound influence on the Chinese film industry, impacting on the infrastructures that support filmmaking at virtually every level.

PART 2

1. Policies

1.1 Main Findings

- *The Chinese government dictates the policies and guidelines that govern the Chinese film industry, and developments within the industry are largely determined by governmental decision-making.*
- *As China increasingly integrates private market practices, the government's role within the film industry has not, and is unlikely to, change. Rather, their infrastructures, organisation and management practices have undergone transformations and developments.*
- *Rapid developments within the Chinese film industry have exposed flaws and weaknesses within the original policies initiated as China embraced greater economic openness. These original policies were built around strategies of transition, and were characteristically short-sighted, responding to the immediate situation with little thought given to long-term development. Furthermore, there was little transparency as to how regulations and policies might best be implemented and, as a result, policies often lacked foresight, consistency and effectiveness. Following the promulgation of certain administrative regulations, supplementary regulations would often be required shortly thereafter, indicating that the government lacked a clear strategy when formulating industrial policies.*
- *Since the integration of market practices, the government has been tasked with balancing its dual role as both party leader and market facilitator. In order to best juggle these binary, and to a certain extent, contradictory roles, party members must fully understand the role of the state in this new economic environment and should limit administrative intervention to best aid the development of free market practices.*
- *The main pieces of legislations have focused on five primary areas of significance: 1. Promoting legal and standardised development within the film industry; 2.*

Promoting film production and improving film's artistic quality; 3. Cultivating the macro-economic environment of the film industry; 4. Improving the public service sector of the film industry; 5. Promoting the marketisation of the film industry.

- *One of the most significant pieces of legislation is the Chinese Film Industry Promotion Law. The Promotion Law was established with the aim of cultivating a legal and transparent film market, offering an equal and fair infrastructural framework for all market participants. The Promotion Law promised regulated and sustainable development within the film industry, confirming the status of the Chinese film industry as one of the strategic industries of the Chinese economy more broadly.*
- *Due to the fact that the Chinese film industry has developed at a much faster rate than the regulations that govern it, flaws within these policies and regulations have become increasingly apparent. Therefore, the timely adjustment of policies has become somewhat of a necessity. However, at the same time, policy adjustments that match the speed of development within the film industry risk producing instability and turbulence given the sheer pace of development over the past two decades.*

1.2 Chapter Introduction

Historically speaking, the policies determining the Chinese film industry have been created in the service of the political regime. However, following the reforms of the mid to late 1980s, and the increasing economic openness that ensued, the film industry experienced minor deregulation. Under this more economically-minded system, the political influence within the art and culture industries diminished, and the state was forced to respect the independence of artists. Yet, it must be noted that during this period, regulation was still a reality and remained stringent. Since 2010, however, new policies have been introduced to the film industry, policies that have sought to nurture the economic potential of the film industry given its prominent position within the Chinese economy. Such is the extent of these developments, that economic interests have begun to rival political interests in determining the policies and regulations that govern the film industry.

According to ZHOU Yuxing (2015, 239-252), the Chinese government endeavours to promote the country's soft power through the cinema, utilising film as a means of expanding China's cultural influence around the world. Prior to the introduction of the Film Industry Promotion Law, China operated under a dual-track censorship mechanism; that is to say, different criteria was utilised for films distributed on different platforms - cinema, online, DVD etc. This dual-track censorship system allowed the state to ease the pressure of media control by delegating the task to two separate governing bodies. China's censorship mechanisms articulated a double standard between domestic and official productions, and foreign and independent ones. This double standard is said to have offered protection to domestic films within the indigenous Chinese film market. However, that these policies would ultimately become obstacles impeding future development within the film industry, as they limit both the diversity and creativity of the films produced.¹⁴ Such policies could also hinder the Chinese film industry's international expansion. As economic globalisation and new media technologies continue to instil notions of internationalism, cinema serves as a valuable means of introducing Chinese culture to the outside world. To make Chinese cinema more competitive internationally, Chinese films need to expand in diversity, which has proven difficult under the government's rigid censorship controls. Greater levels of pluralism are needed to help expand China's cultural influence around the world through cinema(2015, 239-252).

YIN Hong (2019) points out that the formation of China's filmmaking infrastructures, and their subsequent developments, stem from a fundamental understanding of what film is and the possibilities film offers as a medium. That is to say, all aspects of the

¹⁴ In its original form, the dual-track censorship mechanism required that each and every film obtain shooting permission in the form of a Production License. However, with the establishment of the Promotion Law in 2016, the obligation to require such a license was removed, as the Promotion Law sought to speed-up the production process. Enterprises and/or organisations that had the appropriate personnel, funds and other necessary resources were entitled to engage in film production activities provided they received approval from the relevant film authorities at a provincial level. Furthermore, as mentioned in the introductory chapter, the late 1980s saw the establishment of a new, multi-level distribution system that dealt with both cinematic releases and films released via home entertainment platforms. Under this system, censorship was overseen by SARFT (the State Administration of Radio, Film and Television) and GAPP (the General Administration of Press and Publication). The establishment of a dual-track censorship system was the result of a top-down structural overhaul, which 'put the Film Bureau, previously under the control of the Ministry of Culture, under the leadership of the Ministry of Radio, Film, and Television' (Zhu and Nakajima, *The Evolution of Chinese Film*, 17-33).

filmmaking process, from who has access to the industry, to production, distribution and exhibition practices, and those of related industries and services, are shaped by a basic cognition of what film is. All such cognitions of film can ultimately be traced back to the policymaking process. The process of policymaking demonstrates a symbiotic relationship between evolution of policies in the Chinese film industry and wider conceptions of the medium of film (29).¹⁵ However, this primary recognition of what film is and can be differs between those of different social classes, educational backgrounds and age groups, etc. These diverging perceptions of the role of film consequently impacts upon the ways in which films are made and consumed. The complexity of the Chinese filmmaking system lies precisely in this intricate and multifaceted cognition of film's fundamental nature.

Through many years of experimentation, China has built a system of policies supporting Chinese enterprises in an increasingly global milieu. However, the management system adopted in the film industry is also suited to China's very specific national conditions and the continued role of the state.

Policies pertaining to filmmaking regulate the content and set the tone of a given film. As a rising power in the world economy, China needs to present a better self-image to the world, one that embraces globalism and human rights over insularism and authoritarianism, a process that will likely take significantly longer than China's emergence as a global economic powerhouse. It is thus the assertion of this thesis that China use all possible means, including film, to improve its global image in order to expand its cultural influence. At the same time, the state must continue to educate its people to regain cultural confidence.

During the tenth of China's Five-year plans between 2001-2005, 'going global' became a national goal (People.cn, 2001). The state began to encourage Chinese enterprises of varying levels of ownerships to invest overseas and run transnational operations. Such participation in various forms of international economic and technological cooperation spring-boarded China into the global market, initiating a new phase of economic cooperation with the outside world. Since 2010, policies centred upon the art and

¹⁵ See Appendix 1 The Dynamic Development of Policies and Key Years within the Contemporary Chinese Film Industry.

culture industries have become increasingly transnational in focus. Such developments suggest that economic interests have begun to surpass political ones in the development of policies, especially given the exponential growth of the film industry and its importance to the Chinese economy as a whole.

The Chinese film industry has increasingly embraced transnationalism, partaking in co-productions and other joint ventures, and has slowly accepted greater levels of foreign input and investment. The contrasting goals of marketisation and protectionism are somewhat at odds with one another and have consequently given rise to tensions and discrepancies within the film industry' (Davis & Yeh, 2008, 38).¹⁶

In this chapter, I will examine the role of the state, the regulatory bodies established to implement film policies and the role of censorship in Chinese cinema. Finally, I will conclude by summarising some of the current issues that have come to light in relation to film policy and offer potential solutions to these predicaments.

1.3 Policymaking within The Chinese Film Industry

1.3.1 The Role of the State

Within the Chinese film industry, the government holds absolute power when it comes to dictating policy. Even within the context of China's market-oriented economic reforms, the state continues to occupy a decisive role in the development of the film industry (Yin, 2019, 17). However, in this new economic environment, the government is charged with juggling the intersecting demands produced by its position as both party leader and market facilitator, incorporating market forces and global capital into the existing filmmaking infrastructure. David Shambaugh (2008) thus suggests that 'the CCP will accomplish something that no other communist party-state has been able to do: adapting and transforming itself from a classic Leninist party into a new kind of hybrid party'. The Party-state, therefore, becomes an 'eclectic state'.

The state's dual status as policymaker and market player has thus resulted in a state monopoly of the film industry. As upholder of the party's interests, the state has thus

¹⁶ Will discuss 'marketisation' with different focuses in this thesis.

placed greater emphasis on the consolidation of national identity and preservation of cultural heritage over the development of a transparent and free market (Keane, 2010, 130-135).

The Chinese film industry has reaped the rewards of state sanctioned foreign investment, while also profiting from the greater access to more developed technologies, skills and labour that their global integration has facilitated. At the same time, the state's influence has helped stabilise and consolidate the Chinese film industry during its various stages of transition. However, the film industry continues to suffer from the continued regulation and censorship characteristic of state-ownership and filmmakers continue to lack creative freedom. Indeed, as Su (2014) highlights, between 2010 and 2011 'less than 20% of the 400 to 500 films produced annually passed the censorship and put into the schedules of theatre chains, leading to a vast waste of film funds and an imbalanced development of the domestic film industry' (114). Such statistics demonstrate the difficulties faced by the state in aligning its position as party leader and market facilitator.

1.3.2 SAPPRFT: The Regulatory Body and their Main Legislations

The Chinese film industry is regulated by the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) and its 33 provincial departments.¹⁷ The SAPPRFT was formed in 2013, amalgamating the State Administration of Radio, Film, and Television (SARFT), first initiated in 1998, and the General Administration of Press and Publication (GAPP). The transformation to the SAPPRFT was an attempt to streamline China's censorship system by merging the two government bodies. As Nancy Tartaglione (2018) states, '[a]t the time, the public was increasingly discontented with a bloated central administration, whose bureaucracy and inefficiency were at odds with a market-oriented economy'. SAPPRFT has been responsible for a number of important

¹⁷ The State Administration of Press, Publications, Radio, Film and Television (SAPPRFT) had been dissolved and replaced by a new body for radio and TV directly under the State Council (the cabinet of China's Communist Party). There was no mention of what would be happening with the film industry, which has also been regulated by SAPPRFT for several years. On March 20, 2018, it was announced that China is creating a new body for film, books, magazines and newspapers directly under the Party's department of propaganda (sometimes translated as the department of publicity). April 16, 2019, China unveiled three state administrations in the ideological sector, created as part of the Party and state institutional reform: the State Film Administration, the State Administration of Radio and Television, and the State Administration of Press and Publication. The new film and press administration will now be governed by the Publicity Department of the CPC Central Committee.

regulations. Below is a list of regulations covering the production and distribution of films in China.

General:

- Film Administrative Regulations, or the Film Regulations (2002)
- Interim Provisions on the Qualifications for a Film Enterprise's Access to Commencement of Operation, or the Film Enterprise Qualification Provisions (2004)
- Provisions on the Filing of Film Scripts (Abstracts) and the Administration of Films, or the Film Filing Provisions (2006)

Co-Production:

- Regulations on the Sino-foreign Corporation in Film Production, or the Sino-foreign Co-Production Regulations (2004)

1.3.3 The Different Forms of Policy within the Chinese Film Industry

Chinese film policy incorporates three primary modes of discourse; main-text forms, assist text forms and generic text forms (Zhou X. , 2008, 39). **Main-text forms** refer to officially released documents issued by the state. There are various forms of such documentation, including reports, informs, suggestions, plans, instructions, and manifestos, some of which, while not termed as policies, are treated as such. Strictly speaking, main-text forms do not have legal status but are nevertheless enforced by the state. As a result, main-text forms are often difficult to challenge, especially when they respond to events and happenings within the art and culture industries.

Assist text forms, alternatively, can be understood as unofficial documents produced by the state. These include speeches, family letters, written works and even expressions of personal interests made by party leaders. Assist text are neither unified nor objective, and do not constitute official legal documents or edicts. Given their informal nature, their meanings can be somewhat vague and open to interpretation, at times leading to disputes. Furthermore, some assist texts have contained the personal comments of party leaders, creating a potential link between policymaking and the leader's personality cult.

While main-text forms constitute official forms of documentation, assist texts have still

proven effective in shaping policy in China. However, it can take a significant amount of time for an assist text to become policy, as the process of policymaking can be very time consuming and dependent on various surrounding issues, such as the politic climate and the necessity of the policy (Jin Y. , 2014, 45-58).

The generic text is similar to the assist text in that they are both unofficial. However, what distinguishes them is the fact that generic texts are the proclamations of local or lower hierarchy leaders and officials.

Between 1949 and 1978, more than half of film policies originated from **assist texts**, with 28 out of 49 assist text forms eventually achieving the status of film policies. In contrast, only 8 out of 69 policies made between 1978 and 2012 developed from assist texts (Jin Y. , 2014, 59-60). This can be attributed to developments within the legislation of the art and culture industries.

Policymaking in the Chinese film industry can be characterised by an ongoing process of deregulation. Prior to 2010, most film policies were initiated by reforms made in four specific years, namely 1962, 1979, 1996, and 2007. In 1962, China was at the height of Culture Revolution, to which the state responded by introducing the most stringent censorship within the film industry for nearly two decades.

In 1979, seven significant new policies were introduced to the Chinese film industry; two derived from the speeches of DENG Xiaoping, and one originated from an editorial article published in the People's Daily newspaper. The policies instigated during this time would set the tone for future developments within the Chinese film industry. Increasing emphasis was placed on diversity with nearly 600 films authorised within two years of the new reforms. Furthermore, for the first time, local film factories could choose, audit and invest in films by themselves and more quality and/or provocative works were permitted entry into film festivals and contests.

In 1996, a further six policies were passed, all relating to industrial and/or economic developments within the film industry. Such reforms included 'The Instruction of National Funds for Film Industry Development' and 'The Inform of Establishing 9550 Project Fund of Excellent Films'. Additional policies implemented in 1997 provided further evidence of China's decision to support the film industry, offering greater

flexibility to filmmakers.

In 2007, policies were introduced that demonstrated China's continued support of the film industry. New policies promoted standardised regulation and developments within the management of the film industry.

1.4 The Main Pieces of Legislations Currently Enforced within the Chinese Film Industry

The main policies implemented within the Chinese film industry form the foundation from which China's current filmmaking practices are built (Yin, 2019, 31).

1.4.1 Censorship

Censorship in China is used to govern the content of films and regulate what audiences are exposed to. Films containing sensitive subject matter such as violence, sex, depression, extremism and other elements perceived negative or adverse to the state's ideology are thus stringently forbidden in any art form and/or public forum. This ensures that only positive values, that is to say, values deemed acceptable to the state, are disseminated to the public.

Due to the absence of a fully-fledged film classification system, the authorities use censorship as a form of classification. This system is far from ideal because this ultimately divides all films into two basic categories, acceptable or unacceptable, doing a disservice to the many films they are only inappropriate to specific audiences, such as children, for example, but perfectly acceptable for the rest of the cinema-going public.

Therefore, given the lack of a clear classification system, the need to abide by censorship laws in China has become a mandatory requirement for filmmakers seeking to get their film produced and exhibited. The reasons for this are as follows:

1. The CCP recognises the effectiveness of film as a means of educating and socialising its citizens. Through films espousing the ideology of the state, audiences learn how to be "proper Chinese citizens", with state approved narratives contributing to the shaping of citizens' political values, morality and subjectivities. Films are thus used by the state as a means of subtly encouraging citizens to support the political regime. Consequently, the films produced must align with party's interest or, at the very least, not defy the will of

the state or expose flaws within its ideology/practices. It is the assumption of the state that the failure to instil adequate policies within filmmaking would result in the party losing a powerful means of indoctrinating citizens and grant potential political opponents access to a powerful tool of dissent.

2. By using film as an educational tool, the government can inculcate citizens into adopting appropriate values and manners. With China's Confucian heritage, proper social conduct is perceived to be a national tradition. However, with China's rapid economic growth and increasing international openness, inequality and injustice have become increasingly prominent in contemporary society. In response, the state has deemed it necessary to re-emphasise traditional values built around polite social interaction and acceptable behaviour. Such forms of social conditioning have a long legacy in China, and it has long been perceived as a duty of the government to educate its citizens to behave correctly. Policies in filmmaking must thus ensure negative content such as violence, pornography, gambling and drug abuse be kept at a minimum.

3. Filmmaking policies thus regulate the content and tone of a given film. Any negative images of China, especially relating to themes of corruption, poverty, and protest, will be met with censure and, in many cases, lead to the film being excluded from exhibition or, at the very least, be heavily edited. However, given the country's status as a rising global power, there is a case to be made that China needs to present a more liberal and inclusive self-image to the rest of the world. As previously stated, it may be a far lengthier process for China's cultural influence to reach the levels of its economic influence.

However, it must also be noted that there has been some degree of progression with regards to the material deemed worthy of censorship. A fitting example of such progression can be seen in the case of *Seek McCartney* (WANG Chao, 2018). *Seek McCartney* (previously entitled "*Looking for Rohmer*") is a gay love story, co-produced with France. China's censors had previously been hesitant about exhibiting homosexual subject matter on the big screen, an issue made more problematic by the lack of a proper rating system and by the fact that films in China are expected to be accessible to audiences of all ages. However, in 2015, the film was approved for theatrical release, making *Seek McCartney* the first openly gay love story screened in Chinese cinemas. Director Wang announced the news on his microblog, declaring that the film's acceptance was 'a small

step for the regulator and a big step for filmmakers' (Huang, 2016).

As discussed in the Introductory chapter, between 1998 and 2013, media censorship in China fell under the jurisdiction of SARFT, who regulated all radio, film, television, satellite and internet broadcasts in China. Under the umbrella of SARFT, the film bureau had a committee dedicated to censorship. The committee consisted of 30 or so staff members, all deriving from a variety of backgrounds, including personnel from the film industry, the Communist Youth League, the Women's Federation, and various other government departments. These individuals would be divided into various sub-committees, and given control over a particular sector/area. International co-productions, for example, were handled by a small group of three or four members of the committee (Cain, 2011). As Robert Cain states '[t]he principal aims of the censorship system are to promote Confucian morality, political stability and social harmony' (Cain, 2011). As a result, all films had to comply with the two-round, three-step censorship process.¹⁸

In 2013, in an effort to streamline the censorship process SARFT, along with the General Administration of Press and Publication (GAPP) merged to form the SAPPRFT, the governing body now charged with regulating the output of China's entire media, entertainment and publishing industries. Under the remit of SAPPRFT, 33 new policies were announced in 2015, and 11 policies (two laws) issued in 2016. These new policies focused on five key areas of development (China Film Association & China Federation of Literary & Art Circles Film Centre, 2017):

1. Promoting legal and standardised development within the film industry.
2. Promoting film production and the artistic quality of film.
3. Cultivating the macroeconomic development of the film industry.
4. Improving the public service sector of the film industry.
5. Promoting the marketisation of the film industry.

As previously discussed, before any film could go into production, filmmakers were required to get full script approval by SAPPRFT. This changed, however, with the

¹⁸ see *Appendix 2 (2) Censorship process*.

introduction of the Film Promotion Law in 2017. With the Promotion Law, the approval process was streamlined and films focusing on so-called “general” themes no longer required such authorisation for their screenplays. Instead, such films needed only to submit a synopsis. For films engaging with allegedly “special” themes, that is to say, films dealing with material that might be considered controversial or those that might incur the wrath of the censors, a full screenplay was still required for submission.

Article 16 of the Film Promotion Law clearly outlines the type of films eligible for censorship/prohibition, as indicated in below:

- (1) Films that abuse or contravene the values and principles of the Constitution of the People’s Republic of China, or those that incite resistance that could harm the Constitution and its laws and administrative regulations;
- (2) Films that endanger national unity, sovereignty, and the territorial integrity of China, as well as those that disclose state secrets, endanger national security, undermine national dignity and/or promote terrorism and extremism;
- (3) Films that defame the nation’s outstanding cultural heritage, infringe upon national customs and traditions, distort national history or falsify historical figures. Films that damage or harm national feelings and destroy national unity or those that incite prejudice, national hatred and ethnic discrimination;
- (4) Films that undermine China’s religious policies or promote superstitions and cults;
- (5) Films that are damaging to social morality, disrupt social order, undermine social stability, promote obscenity, incite and encourage drug abuse, render violence and terror, abet crime or impart criminal methods and practices;
- (6) Films that impair the physical and mental health of teenagers;
- (7) Films that insult or defame individuals, publicise private matters, and infringe upon the rights of others;
- (8) Films that engage with other content prohibited under the laws and administrative regulations of the state. (The National People's Congress of PRC, 2016)

1.4.2 The Chinese Film Industry Promotion Law

For much of its history, the Chinese government has employed stringent regulation to control the cultural sectors; industries perceived as powerful tools used to indoctrinate citizens and foster allegiance towards the political regime. However, with the rapid economic developments of the past few decades, and the increasing marketisation of the Chinese film industry, many filmmakers and industrial personnel have argued that China's convoluted film policies are stifling creativity within the film industry and limiting further development. A number of individuals within the industry have, with varying degrees of openness, expressed dissatisfaction with current regulatory practices, arguing that China's elaborate and long-winded directives ultimately discourage private investment and international collaboration.

It thus became clear that China's current policies were out of date. Compounding the archaic nature of contemporary policies, there was no clear regulation on an increasing number of emerging phenomena such as IP's, actors' incomes and various other issues that emerged from the capitalisation of the film industry. The lack of current and relevant legislation had become increasingly apparent in recent years with the rise of a number of unsavoury market practices, such as ticket fraud.

Since the early 2000s, a number of policy experts, film and policy scholars and filmmakers began to appeal for new and up-to-date laws in order to better promote, regulate and protect the Chinese film industry. It was argued that such legislation would help the industry dynamically adapt to the rapid developments currently taking place within the industry and help evolve the Chinese film market both domestically and internationally.

After more than a decade of negotiation, the first and, as of the time of writing, only laws dedicated exclusively to film, The Chinese Film Industry Promotion Law, were legislated in 2016. The Promotion Law was introduced alongside other broader policies and can be seen as an amalgamation of the most salient features of past policies, while providing updates and developments to policies now deemed obsolete or out-dated. The Promotion Law was touted as a benchmark moment for the Chinese film industry, allowing legislation to catch up to the current needs and demands of the industry.

Policies pioneer laws; not only have policies shaped contemporary practices within the Chinese film industry but were also a springboard for the Promotion Law. Through the successes and failures of past policies, and the experiences gained from their implementation, the Promotion Law is both contemporary and relevant, containing suggestions for sustainable future development within the Chinese film industry. The Promotion Law endeavours to regulate, protect and promote the Chinese film industry and has a greater level of authority to enforce change were necessary.

1.4.2.1 The Establishment of the Film Industry Promotion Law

Although numerous reports have stated that the Promotion Law was officially proposed in 2011, its origins can, in fact, be traced all the way back to 1984.¹⁹ Indeed, with the introduction of market-oriented reforms, the state had always sought to develop film laws to safeguard China's transition into the global market. However, it was not until 2004 that SARFT commenced preparation on a draft of the Law. After an eleven-year review process, the National People's Congress released a draft of the Film Promotion Law for public comments in November 2015. Finally, after 32 years, the Promotion Law was enacted by the Standing Committee of the PRC National People's Congress on November 7, 2016, and took effect on March 1, 2017.

The implementation of the Promotion Law has led to the introduction of an official box-office/distribution revenue reporting system and, as in previous regulatory systems, encouraged the promotion of Confucian morality, political stability and social harmony. The Promotion Law, built upon socialist guidelines, holds filmmakers, both domestic and foreign, accountable for their output and, as the Chinese news agency *Xinhua* stated, those 'involved in activities that damage the dignity, honor and interests of the country and harm social stability shall not be worked with' (Brzeski, 2016). The proclamations of the Promotion Law cover both official co-productions and other, unofficial/informal collaborations involving international investors and creative practitioners. Such unofficial collaborations have become increasingly common in recent years and many have argued that they are pushing the Chinese film industry in interesting new directions

¹⁹ Indeed, published articles by Evans (2016), Alderson and Yang (2016), and Gold (2016) fail to mention the actual beginning of the Promotion Law development.

(Yecies, 2018, 91).

The Promotion Law consists of sixty articles divided into six sections/chapters, including General Principles; Production/Filming; Distribution and Exhibition; Supporting and Safeguard; Legal Liability; and Supplementary Provisions.

In addition, the Promotion Law includes a section dedicated solely to the broadcasting of films on the Internet, following the third-round discussions on 31st October 2016. In the final Law's Article 2, it states that the existing laws applicable to streaming of motion pictures on the Internet, telecommunication networks, and radio networks will continue to apply. Alderson and Yang, as the earlier reporters focused on the Promotion Law and translated some articles in the English language, suggest that this may indicate somewhat of a relaxation of state censorship, which would spur growth within the industry and simplify the process of getting new film projects off the ground (Alderson & Yang, 2015 and 2016).

1.4.2.2 Six Noteworthy Trends within the Promotion Law

Trend 1. The State Council shall integrate film industry development into the broader national economic and social development plans (Alderson & Yang, 2016).

According to the Article 5 of the Promotion Law, the State Council shall officially incorporate developments within the film industry into wider national strategies of economic growth. With this policy, the state recognises the Chinese film industry as an important pillar industry in the stimulation of China's GDP.

According to Articles 16, 37, 38, 39, 40, 41, 42, 43 and 45, the state will establish a broad mechanism of support for the film industry, offering preferential financial measures such as reduced corporate tax and offering other financial incentives. Specific measures are promulgated by the tax authorities of the State Council, giving local governments greater levels of flexibility in adopting measures suitable to their particular region's current economic and social climate.

Financial institutions are encouraged to provide financial support to filmmaking, film-related IP services and improvements to the filmmaking infrastructure. Insurance and

completion guarantees are encouraged to improve the financial instruments used within the Chinese film industry (Alderson & Yang, 2016). At the same time, the state also encourages private firms to invest in the film industry.

In order to align with China's social development, the state shall develop film-related education and encourage qualified institutions, such as higher educational institutions, secondary vocational schools and training institutions to cultivate film talent and establish film-related degree programmes.

Trend 2. The simplification of the approval process and lowering of the threshold for new productions.

Some of the most important measures included within the Promotion Law are, firstly, the streamlining and accelerating of bureaucratic processes and, secondly, the decentralisation of governmental functions.

In accordance with Article 13 of the Promotion Law, screenplays will no longer be subject to approval by SAPPRFT if the film engages with "general" themes. For such films, SAPPRFT requires only a synopsis before production can begin. A full screenplay review is still required for films engaged in "special" themes such as those engaging with political matters, the subject of war, and other national themes and issues. Under the previous system, a completed script for all films, regardless of content, had to be sent for approval before shooting could commence. Following this now streamlined authorisation process, provincial radio, film and television departments will sanction the film following national guidelines (Gold, 2016).

According to Articles 8, 13, 24, and 25, production licenses will no longer be required for individual films. Chinese enterprises with the "appropriate personnel, funds and other resources" will be allowed to engage in film production activities if they have approval from the relevant authorities at the provincial, regional or municipal level(s).

Additionally, according to Article 17, the appeal process for films incurring edits/censorship has also been simplified and the turnaround time shortened to within 30 days. Approval is still required following the completion of production. However, such approval can now be obtained from the provincial authorities.

Trend 3. The Public Release License.

Although the production license is no longer required, a public release license is mandatory for all films released at all levels of exhibition. Articles 19, 20, 21, 35, 48, 49, 52 and 54 emphasise the fact that, firstly, any film not licensed for release should be prohibited from production in any audio-visual form, and prohibited from exhibition in any form of public/private screening, festival and competition, whether domestically or abroad (including via the Internet, telecommunications networks, radio and television or any other information network). Secondly, if a film without the appropriate release license is exhibited, whether domestically or internationally, the filmmaker will incur a fine. Depending on the circumstances surrounding this unauthorised exhibition, the filmmaker(s) found to be violating public release licencing laws could be prohibited from working in film-related industries for five years. Thirdly, the release license should not be required by any improper means such as forged, altered, leased, lent, bought and sold.

In addition, according to Article 22, any legal citizen and/or organisation is permitted to engage in post-production operations for foreign films, but must report this activity to the relevant film administration department at the provincial level. The specific information that must be filed is not specified, however, any business activities that may damage the national image, social stability and/or ethnic the general unity of PRC are not permitted.²⁰

Trend 4. The bolstering of regulation for theatre chains and box-office reporting.

According to Articles 30, 34, 51 and 54, fines will be inflicted on those guilty of recording false box-office data, a somewhat recent phenomena within the contemporary Chinese film industry in which firms have inflated ticket sales records in order to generate buzz for new releases.

The Film Industry Promotion Law requires that box-office data be accurate and the systems for recording such data be transparent. Integrated within the new laws are specific regulations focusing on the administrative and legal responsibilities of those recording ticket sales as well as their civil liability and criminal responsibility. The law takes a zero-tolerance approach to fraudulent box office revenue, regardless of whether

²⁰ Translated by Alderson and Yang, 2016

this misinformation comes from the exhibition or distribution sectors. The law also emphasises the punitive measures for any fraud or wrongdoing. These include fines and the revoking of business licenses.

Trend 5. Protecting young audiences.

As a result of the Chinese film industry lacking a fully-fledged film classification system, Articles 20 and 28 state that films should include a notice/illustration informing citizens that the content of the film is not suitable for younger audiences.

Trend 6. Encouraging foreign investment and international co-operation.

A significant portion of the Promotion Law is dedicated to the promotion of international co-operation and foreign investment. For example, small or lower tier cities are encouraged to build more theaters (Articles 27 and 39); additional tax incentives and state funding are to be provided for foreign investors (Articles 37 and 38), and domestic film companies are increasingly incentivised to seek foreign investment and co-operation (Articles 11, 22 and 41). Many of these new laws and initiatives benefit the official co-production process for foreign producers. Indeed, these new initiatives recognise that there was a need to improve the financing system co-productions and a need to offer greater tax incentives to local producers. Through the Promotion Law, co-productions will now be given the same status as motion pictures produced by domestic legal entities, and new systems of funding and profit sharing have been introduced to further assist international co-operation. Additional policies implemented to encourage foreign investment and international co-operation include funds for the development of film festivals, both in China or overseas, and access for co-productions to the relevant release licenses (Articles 11, 14, 22, 29, 35, 41 and 44).

However, as Alderson and Yang state '[t]here are no fundamental changes to the existing regulatory framework as it affects foreigners' (Alderson & Yang, 2016). Under the new system, foreign companies are still ineligible to participate in independent film production in China, and they are still prohibited from participating in Chinese film distribution. In addition, no changes have been made to the import quota for foreign films.

Furthermore, Article 29 states that the total number of films produced by domestic

companies must still comprise no less than two thirds of the total number of films released in a given year. Additionally, with regards to the screening schedule, theaters must “reasonably arrange” the number of screenings and time-slots for domestically produced films(Alderson & Yang, 2016).

1.5 Policies Dictating the Different Stages

1.5.1 Production Policies

In 1986, the state transferred regulation of the film industry, including its production processes, from the Ministry of Culture to SARFT. A decade later, film production practices would undergo further reform when, in 1996, the state legislated that local production studios would be put under the management of local film departments, departments functioning under the guidance of SARFT and later SAPPRFT. In 2016, with the introduction of the Chinese Film Industry Promotion Law, the state decreed in Article 17 that the appeal process for films denied a release license, whether due to censorship issues or otherwise, be reduced to 30 days. Post-completion approval was still a requirement, but could now be obtained from the provincial authorities.

After 30 years of reforms, one may argue that the state’s film regulation mechanisms are transforming from mechanisms of control to one of guidance.

With regards to developments within the production system, at the 1996 ‘Changsha Conference’ the decision was made to end the state-owned film studios’ monopoly on film production, and, for the first time, private companies were permitted to engage in the production process.²¹ As a result of this decision, the number of film production studios expanded. Besides the 16 state-owned film production companies, new private studios were constructed in Nanjing, Tianjin, Shanxi, Jiangxi and Heilongjiang. At the same time, a number of private enterprises also obtained the relevant certification for producing films. Indeed, by 1995, the number of films produced by private enterprises or with private investment already occupied more than half of the total number of the domestic films produced. This key change in policy not only expanded the scale of

²¹ The National Film Working Conference held in Changsha, Hunan Province, China, 23-26, March 1996.

production in China but also introduced greater levels of market competition into the production process (Jin, 2014, 127).

Co-productions

Co-productions were perceived as a way of encouraging investment into Chinese film production while still maintaining control of the films produced and the images of China disseminated, both at home and abroad. The authorities would allow foreign investment of up to about 43 percent in revenue sharing films produced alongside Chinese companies. These initiatives would allow the state to benefit from both the financial advantages and outside expertise that co-productions granted, while still limiting foreign input in Chinese market practices.

In fact, restrictions were imposed upon the foreign studios, especially those from the U.S. Quotas limit the number of imported films and foreign studios can only acquire up to 25% of the Chinese box office revenue (Lynch, 2015). In 2012, the U.S. - China Film Agreement was signed, a trade deal that increased the Chinese import quota from 20 to 34, and granted 80% of import revenue to foreign studios, putting to rest what had been a longstanding WTO dispute. However, with this increase in the import quote, China has ruled that 14 of these 34 must be 3D or Imax films. In an effort to evade the restrictions imposed by the Chinese government, many international production companies have turned to co-productions — making films with a Chinese partner — which aren't subject to quotas.

Additionally, with the introduction of the Promotion Law, new laws were introduced that prohibited local production companies from partnering with foreign filmmakers intent on 'damaging China's national dignity, honor, and interests, or harming social stability or hurting national feelings' (Alderson & Yang, 2016). Furthermore, under the Promotion Law, co-productions continue to exist outside of the 34-film quota, and foreign studios are now eligible to take up to 43% of the Chinese domestic box office rather than the standard figure of 25%.

Article 14 of the Promotion Law reiterates the pre-existing policy regarding co-productions, stating that co-operatively produced films that meet creation, funding, profit distribution requirements will be given the same legal status as those produced

exclusively by domestic production companies.

Under the Promotion Law, co-productions continue to be subject to the approval of the China Film Co-Production Corporation, governed by SAPPRFT. To be approved, a film must include at least one scene shot in China or have at least one Chinese actor, a minimum of a third of its total investment must come from Chinese companies, and the film must portray China in a positive light (USCC, 2017).

The Promotion Law fervently encourages this type of financially lucrative, politically safe co-production (Articles 11, 14 and 41). The reason why such forms of co-production are encouraged, beyond their obvious financial benefits, is because the Chinese film industry continues to lag behind Hollywood in terms of cinematic technology and technical expertise. Such forms of co-production provide access to knowledge and technology that will help the Chinese film industry develop.

However, external developments can, and indeed have, directly impacted upon China's relationship with co-production partners. Take China's relationship with Korea, for example, in which event outside of the film industry have cast serious doubt over the future of Sino-Korean cinematic relations. In July 2016, the U.S. and South Korean military agreed to install a new Terminal High Altitude Area Defense (THAAD) anti-missile system in South Korea as a response to intensification of missile tests in North Korea. Due to the escalating tension in the region, China experienced an escalation of anti-Korean sentiments at both a governmental and non-governmental level.

In August 2016, sources within both trade and popular presses began reporting that the Chinese government planned to restrict Korean actors from appearing in Chinese films and television, and while the Chinese government refused to make any kind of official statement on the subject, rumour across Asian media networks have reported that the Chinese government is using such authoritative tactics to put pressure on President Park Geun-hye. In any case, this decision has cast a severe doubts over the future of Korean-Chinese collaborations. Since late 2016, and well into 2017, no official Sino-Korean co-productions have been produced, and uncertainty looms over the future of co-productions between the two nations, a collaboration that produced popular films such as *A Wedding Invitation* (Ki Hwan Oh, 2013) and *20 Once Again* (Leste Chen, 2015) (Yecies, 2018, 92).

This example highlights the impact of external factors, whether political, economic or social, upon cinematic relations between countries. Prior to this dispute, China and Korea's productive, bilateral relationship had contributed significantly to the growth of Chinese film industry and had enabled China to disseminate its 'soft power' amongst diasporic audiences, as well as to international audiences and industry stakeholders.

Ultimately, the collaborative strategies outlined in the above section have enabled China to play a larger role on the global stage, without foregoing its role as the chief propagator of socialist ideology (Yecies, 2018, 92).

Incentives and Governmental Subsidies

To aid further development within the film industry, the state has initiated a number of provisions for the culture industries. Articles 16, 37, 38, 39, 40, 41, 42, 43, and 45 of the newly enacted Promotion Law all engage with the support mechanisms put in place to promote industry expansion. These include support for film education and for film-related activities in rural and/or impoverished areas, incentives for financial and insurance industries to support filmmaking and incentives for cross-border investment. Specific measures are to be promulgated by the tax authorities of the State Council.

Furthermore, local governments are encouraged to provide relevant support to the film industry and other film-related activities. The incentives for each local province differ, however, as each region is granted an individually allocated tax subsidy. Local governments and large companies can therefore offer different, funding-specific tax incentives for promoting film industry development. For example, an incentive funded by both the Wanda Group and the Qingdao municipal government offers an up to 40% cash rebate for qualifying investments in the Qingdao region.²² The incentive has been subsidised by a USD 750 million (CNY 5 billion) five-year film and television development fund. As part of this initiative the Wanda Group proposed the development of Wanda Studios Qingdao, a USD 8.2 billion complex officially opened on April 28th, 2018. Facilities boasted by the mega-studio, officially known as the Qingdao Movie Metropolis, include 30 sound stages, including the world's largest at more than 107,000 square feet, a

²² Qingdao, located in the eastern province of Shandong, is a port city with a population of over 9 million. It is situated approximately 400 miles southeast of Beijing and 450 north of Shanghai.

permanently heated underwater stage, and a 221-acre backlot (Kay, 2016).

The 40% tax subsidy offered by Wanda and the Qingdao government is one of the world's largest, surpassing the 30% offered by the state of Louisiana – among the highest in the U.S. – and the 30% offered by Malaysia, one of the most generous tax incentives offered in Asia. Incentives schemes like the one offered by Qingdao will undoubtedly encourage international productions to shoot their films in China, tendering attractive tax rebates and the latest studio facilities.

The government has offered increasingly alluring benefits to attract international producers, with the hope that said productions will which stimulate the local economy. Cast and crew will naturally require accommodation, transportation and food during the production and allure of big-budget movies, especially from Hollywood can, in turn, bolster tourism and other areas of the economy.

1.5.2 Distribution and Exhibition Policies

Under the Promotion Law, the public release license has acquired considerable status, as films cannot be exhibited in China without one. As dictated by Article 20, unlicensed films must not be distributed or screened. This includes via the Internet, a telecommunications network, radio, television or any other information network. If a film without a release license participates in a film festival, wherever in at home or abroad, it will be fined. In the case of serious infringements of the licencing policy, the filmmaker will be banned from engaging in any film-related activities for five years.

According to Article 19 of the Promotion Law, if a film's content is deemed to be in need of modification after a public release license has been obtained, the film will be subject to a second review. For those wishing to appeal the verdict of the release license review, Article 17 indicates that review decisions will be made within 30 days.

In addition, the Promotion Law has sought to establish a *de facto* quota system into the law. Article 29 of the Law states that movie theatres must allocate at least two thirds of their screen time to domestic films. Essentially, foreign films will be limited to, at most, a third of all screen time (although interestingly, the section of the law that deals with such violations does not address the consequences of theaters dedicating more than a

third of their screening time to foreign films). Thus, fears that China may abolish the quota system can be, for the time being, laid to rest. Furthermore, there has been little to suggest that the box office revenue limit of 25% is going anywhere anytime soon (Lynch, 2015).

Furthermore, the Promotion law allows foreign investors to put money in theaters, up to 49 percent of said theater's cost, a number that goes up to 75 percent in the largest cities. They however, cannot create their own, independent cinema chains (Xu, 2007).

The Reasons why China cannot adopt a Classification System

Although the industry has been calling for a classification system for many years, hierarchical management has proven difficult to implement. In China, on the one hand, the direct connection between film and national politics has been normalised; on the other hand, the complexity of Chinese society makes it quite difficult to manage the consumption of film products.

There are some major obstacles impeding the implementation of a classification system in China. For one, Chinese administrative departments cannot replace the censorship system with a classification system. China's cultural propaganda system adopts supervision at an early stage, rather than a system of punishment at the latter stages.

Additionally, establishing standard operations has proven to be difficult. Who determines the criteria for classification? How might these standards be implemented? How can these standards be enforced within the marketplace?

Furthermore, Chinese society is highly heterogeneous. China has undergone rapid modernisation and social development over the past few decades. However, this development has not been unified across the country, leading to different levels of development within cities of different tiers and between rural and urban areas. As a result of the differing levels of social development and modernisation, there is a rather huge discrepancy between what citizens may deem acceptable, a discrepancy that is further enhanced by other contributing factors such as age, religion, class, etc. Ultimately, these factors make it very difficult to impose unified standards.

Thus, it appears that China's film licensing system is likely to remain in place for the foreseeable future and film classification, while at best serving as an informal regulatory system, is unlikely to supersede the current content licensing system. In 2017, the implementation of the Film Industry Promotion Law replaced the film shooting license with a more streamlined release licensing system, and changed China's dual-license system to single-license (supply license), indicating that a certain level of openness has been supported by the law (Yin, 2019,34).

1.6 Chapter Conclusion

Even within the context of China's increased market-oriented reforms, the state's dominant position within the film industry is unlikely to change. However, the infrastructures shaping the industry and its mode of operation have undergone significant transformation and, because the industry has developed at a much faster rate than the regulations governing it, faults within China's film policies and regulations have been exposed.

These faults highlight both the sheer speed of development within the film industry and the fact that the original policies were, for the most part, reactionary and short sighted, merely serving as an immediate response to a period of major transition. The flaws within film regulation also suggest that, to a certain extent, there were no clear objectives with regards to film policy, and policies were subsequently implemented on a basis of trial and error. Consequently, policies often lacked foresight and regularly required amendments and fine-tuning (Yin, 2019, 17). As stated in *The Hollywood Reporter* (2013), 'Chinese regulations are often written in a decidedly vague way, giving the government wiggle room to reinterpret policy as is deemed necessary for implementation. The full extent of the reforms likely won't be known until they are put into practice' (THR staff, 2013).

China's filmmaking and media infrastructures are highly complex and include a variety of participants working at different levels of the industry. That is to say, filmmaking can be understood as a fusion industry that incorporates many economic sectors and business activities, both directly inside and outside of the creative industries. The film industry is also shaped by corporations of varying degrees of ownership, from state-

owned firms to private enterprises, and, given the capital-intensive nature of the industry, often relies on diverse financial strategies such as joint ventures, foreign capital investment and other institutionally-mixed practices. The film industry is thus somewhat of a hybrid industry, one that includes many distinct industries, with their own institutional practices and regulations. Therefore, the film industry is far from a unified market mechanism. As a result, participants from different sectors compete in accordance to divergent rules and regulations.

China's film policies still have a way to go in order to fully meet the requirements of contemporary industry developments. Additionally, given the rapid developments within the film industry, policies lack stability and are prone to change. Ultimately, these factors risk stifling the expansion of the film market and preventing the industry from reaching its full potential. With such ambiguities surrounding policies, the Chinese film industry risks deterring further investment, especially from foreign investors unfamiliar with the intricacies of current regulations. Furthermore, the lack of stability may also hamper further industrial development, as current policies often lack of continuity (Yin, 2019, 39).

One may argue, therefore, that China's current regulatory system would benefit from more timely policymaking. However, such a reactive approach would likely bring with it a certain amount of instability as, given the pace of change in the contemporary Chinese film industry, policies would be in near-constant flux, and in constant need of adjustment. The variable nature of policy will bring turbulence to the film industry and may put off potential investors. Thus, policymaking within the film industry requires balance, through legislation that is progressive but sustainable.

The Chinese film industry must therefore establish a stable and mature system of laws and policies in order to ensure sustainable future development. Contemporary policymaking must strive to minimise ambiguities and incentivise potential investors, both domestic and foreign. Yet, at the same time, policies must endeavour to reduce risk and react to the variables brought about by changing public opinion. Policies must also safeguard the interests of relevant personnel in the industry and cultivate a desire for future development within the industry.

According to YIN Hong , film industry policies must engage with the following core

principles; tax incentives and subsidies for film promotion; market access requirements; film censorship standards, methods, and procedures; management and protection measures for intellectual property rights; specific foreign trade regulations with regards to film; consolidation of ownerships regulations; the construction of a public service information platform as well as others (Yin, 2019, 18).

However, the reforms instigated by the Chinese government currently lag behind the development demands of the contemporary Chinese film industry. After all, the film industry has somewhat reluctantly transformed from a didactic, centralised industry to a cultural entertainment one; that is to say, from a closed and insular system to an increasingly global and relatively open one, although there are still limits to just how open China's film industry is. The Chinese government must now fully adapt to its now twin role of party leader and market facilitator, and film policies must clearly reflect the changing role of the state in the contemporary social, economic and cultural climate.

It is the assertion of the author that in order to facilitate future development within the Chinese film industry, the government must adapt from its previous position as an administrative department and adopt a more supervisory role. Indeed, this process does appear to have already begun, and the government seems to be transitioning from industry administrator to the role of promoter, operating in service of the market. In the near future, the transition from a government-led film industry to a market-led industry under the government's macro-supervision is likely to allow the state to balance its twin economic and ideological goals. At the same time, this transition is likely to become more open and orderly in supervision as film policy catches up with industrial development as the Chinese film industry's expansion eventually levels off (Yin, 2019, 50-51).

2. Production

2.1 Main Findings

- *Between 2010 and 2016, the Chinese government would oversee all aspects of Chinese film production. The state would also supervise the marketisation of film production, governing all the key stages of reform and transition, such as the diversification of ownership and the privatisation of SOEs. The government's overseeing of China's transition towards the market economy would also lead to the internationalisation of the Chinese film industry. Here, the government would be instrumental in forging co-production treaties with other countries, developing the regulations dictating foreign investment in film production and establishing censorship laws determining the acceptability of cinematic output. Additionally, the government would oversee China's technological evolution, encouraging investment and development into innovative filmmaking technologies such as 3D, 4D, virtual reality and augmented reality, as well as offering support to Internet companies working in and alongside film production.*
- *A characteristic feature of Chinese film production is growth. Chinese cinema diversified significantly between 2010 and 2016. Chinese filmmakers have engaged in various experimental filmmaking and industrial practices, producing new, hybrid genres and production styles, such as a self-produced drama series screened via the Internet, micro movies, light films, and reality-show films.*
- *Furthermore, China's film production sector has also experienced substantial financial growth. Public sector investment in film production continues to grow, including an increasing amount of foreign investment, and the film production market has expanded accordingly. Additionally, the market share of production studios has, generally speaking, witnessed continuous growth since 2010, especially those that have embraced vertical and/or horizontal integration.*
- *The Chinese production system remains in somewhat of an underdeveloped state, despite the fact that production is arguably more open than it has been since the nationalisation of the film industry in 1949. Notwithstanding China's regular position on top of global rankings for both the number of films produced and the*

total box-office revenue generated, the quality of the films produced in China is, at best, variable. One of the reasons for the inconsistent quality of Chinese films is a shortage of skilled labour. Industrial personnel typically lack adequate formal training for specialised roles, especially live broadcasting. The number of specialists with adequate training and experience is currently insufficient to support China's large film production sector. While the rate of unskilled labour within the film industry is relatively high, skilled roles such as lighting technicians, make-up artists, sound mixers/engineers and foley artists are currently deficient. China is thus in need of better training programs and facilities, films schools and educational institutes dedicated to teaching the technical aspects of film production.

- *Furthermore, China's copyright protection laws are still somewhat rudimentary and in need of modernisation to better incorporate notions of intellectual property.*
- *Although Chinese cinema has diversified to a significant degree, further variety, both in terms of genre and forms of niche cinema – whether arthouse or independent cinema, etc. – would advance the Chinese film market. Currently, there is a clear preference for entertainment and profit-oriented cinema and a relative lack of alternatives. Consequently, the Chinese film market has become highly saturated, ultimately limiting the industry's potential profitability. More diversified film production, catering to a variety of audiences, both national and international, will thus enrich the film market and facilitate further growth.*
- *Co-productions have become the most common means through which overseas production companies have entered the Chinese film market and circumnavigated China's stringent import quota system. It is likely that, while these quotas are in place, international productions companies will continue in this vein for the foreseeable future. During the period under investigation, 2010-2016, China would establish and participate in numerous co-production treaties with other nations.*
- *Private-owned production companies have acquired a significant stake of the Chinese film production sector thanks to recent investment from large real estate*

companies, such as the Wanda Group, and Internet companies, such as Alibaba and Tencent. Yet, the market remains relatively competitive, and it is likely that future developments will see production companies further embrace horizontal and vertical integration.

- *Horizontal integration can increase market concentration, meaning that most of China's films will be produced by a smaller number of larger production companies. Horizontal integration creates corporate synergy, allowing film producers to maximise their market power and minimise competition, creating economies of scale and ultimately reducing risk. Typically, larger, more financially stable production companies have the resources to attract international stars and explore more novel and innovative film production methods, such as 3D. Horizontal integration will ultimately position Chinese production companies on par with Hollywood's 'Big Six', allowing them to compete with their international counterparts in both the national and global markets.*

2.2 Chapter Introduction

China is one of the largest film producers in the world. Aided by rapid developments within the broader Chinese film industry, and a continuous flow of financial investment, Chinese film production now attracts global attention.

Production was the first area of filmmaking in China to undergo marketisation. Prior to the 1990s, state-owned film studios produced films in accordance with quotas imposed by the government. Consequently, under this centralised system, the films produced were both financially and thematically limited. Domestic films were thus seldom widely circulated outside of China, with only a select few gaining western distribution, typically via the international arthouse circuit.

In the 1990s, under the government's supervision, Chinese film production would be subject to a series of adjustment measures aimed at gradually exposing film production to the private market. The state would begin this process by first liberalising the film production quotas, and gradually allowing state-owned film studios to produce films with social capital. Following this, state-owned film studios were permitted to shoot

films overseas and in co-operation with foreign studios, although limits made imposed upon such collaborations.

In 2002, China initiated reforms that began the industrialisation of the film sector. State-owned studios began the “transformation into enterprises” in an effort to inject new vitality into the waning state-owned production system. This would be the first time the state would permit private and social organisations to produce films independently.²³ After 2003, the "Regulations on the Administration of Films" and the "Interim Provisions on the Production, Distribution, and Exhibition Business Qualification Admittance" allowed state-owned film production agencies to establish production companies with overseas enterprises in joint ventures. However, the regulations established were clearly protective of China's state-owned enterprises and set a number of restrictions regarding foreign investment. Indeed, foreign investors are not allowed to register film production companies independently or in joint ventures with private Chinese enterprises. Nor were foreign companies permitted to invest more than 49 percent of the registered capital in joint ventures. However, such reforms were significant in opening up production stage to international finance and influence, a trend that would continue in the ensuing years (Yin, 2019, 35). Indeed, film production would go on to become the most open sector of China's film industry, and consequently, collaborations and co-production with international partners would become a mainstay.

Driven by such market-oriented initiatives and a broader economic shift towards internationalism, joint ventures served to not only promote diversity and growth within film production, but also facilitated technological development. Influenced by the rapid modernisation of Chinese society and the country's accelerated economic expansion, technology has been an important factor in shaping developments within Chinese film production. In the contemporary Chinese film industry, high-tech audio-visual production practices such as 3D, 4D, VR and AR are widely implemented and supported; while the entry of Internet companies into the film industry has played a significant role in the development of Chinese film production practices.

²³ Before 2002, POEs were only permitted to engage in co-productions as partners alongside SOEs.

Year	2010	2011	2012	2013	2014	2015	2016
Total Number of Feature Films	526	558	745 (653) ²⁴	638	618	686	772
Box Office Revenue (RMB 10 million)	101.72	131.15	170.73	217.69	296.39	440.69	492.83

Figure 6 2010-2016: Number of Feature Films and Box-office Revenue ²⁵

Year	2010	2011	2012	2013	2014	2015	2016
Total Number of Films Released	621	689	893	824	758	888	944
Feature Films	526	558	745 (653)	638	618	686	772
Percentage Proportion of Feature Films	84.7%	80.99%	83.43%	77.43%	81.54%	77.25%	81.78%
Others	95	131	148	186	140	202	172
Percentage Proportion of Other (non-Feature) Films	15.3%	19.01%	16.57%	22.57%	18.46%	22.75%	18.22%

Figure 7 2010-2016: Domestic Film Production Numbers²⁶

The principal research question addressed within this chapter is as follows; what are the main features and trends within Chinese film production between 2010 and 2016? This chapter will engage with the operational procedures dictating Chinese film production,

²⁴ This figure (653) excludes TV-Film genre's productions. *Chinese Film Industry Report 2017*, 54

²⁵ China Film Association, *Chinese Film Industry Report 2017*, 4

²⁶ *Chinese Film Industry Report 2017*, 5

focusing on the key elements of the production industry, such as the leading industrial players, budget and financing, and genres and cinematic forms. This chapter will also dedicate analysis to the strategies of co-operation employed by China, both in terms of distribution partnerships and financial co-productions. The chapter will then engage with some of the current issues that have come to light in contemporary film production practices and discuss potential solutions to these issues.

2.3 Dynamic Developments within Chinese Film Production: 2010-2016

Between 2010 and 2016, Chinese film production underwent significant growth and advancements, with each successive year producing new developments and evolutions. In 2010, there existed more than 1100 production studios/institutions in China, 90 percent of which were private enterprises. These studios would produce over 70 percent of the total number of Chinese feature films released that year. Compare these figures to just two years prior. In 2008, less than 300 privately-owned production studios/institutions existed in China (China Film Association, 2011, 4).

One major trend within Chinese film production has been the emergence of the Chinese blockbuster. That is to say, there has been a significant increase in the number of big-budget films produced in China since 2010, films whose budgets exceed RMB 100 million. Such big-budget films include the action-comedy *Let The Bullets Fly* (JIANG Wen, 2010), which cost RMB 150 million (USD 23.4 million) to produce; the historical drama, *The Flowers of War* (ZHANG Yimou, 2011), whose production cost in excess of RMB 500 million (USD 78.2 million); *The Monkey King* (Cheang Pou-soi, 2014), a fantasy action film that cost RMB 300 million (USD 46.9 million); *The Taking of Tiger Mountain 3D* (Tsui Hark, 2014), an action epic whose budget stood at around RMB 210 million (USD 32.8 million). Such films indicate that Chinese audiences have embraced Hollywood-style big budget productions and multi-million-dollar marketing campaigns.

However, despite the increase in budgets, China's production standards remain relatively inconsistent when compared to their Hollywood counterparts. Consequently, their capacity to compete is somewhat compromised, even though China typically produces

more films than any other nation, and generates the highest box office revenue. Given the variable quality of Chinese blockbuster productions, imported films, typically from Hollywood, continue to challenge domestic productions for supremacy in the Chinese box-office.

The year 2012 was noteworthy for being the first year that foreign films accounted for over half of the Chinese film market, acquiring a 51.54 percent share of the market despite China's import quotas (Daily, 2013). Big-budget Hollywood productions such as *Titanic 3D* (James Cameron, 2012), *Battleship* (Peter Berg, 2012), and *Marvel's The Avengers* (Joss Whedon, 2012) all achieved success within the Chinese film market, making substantial box office returns. Such high-budget imported films exposed a certain level of inferiority within their domestic equivalents, films such as *Back to 1942* (FENG Xiaogang, 2012), which despite having a star-studded cast (Adrian Brody and Tim Robbins) was met with mixed reviews and disappointing box-office results. What's more, during this period China was under pressure from the U.S. following a longstanding dispute that would be resolved by the World Trade Organisation. The ensuing U.S. – China Film Agreement would see China, rather reluctantly, increase the import quota on foreign films from 20 to 34. These new developments would raise further concerns surrounding imported cinema and their impact on the profitability of domestic products. After all, it was widely perceived that the quality of big-budget Chinese films was still deficient compared to those of Hollywood, which was widely considered to be the standard-bearer of big-budget cinema.

In response to the increasing dominance of big-budget imported cinema in 2012, 2013 was marked by a period in which a number of young directors emerged making innovative and relatable cinema on low-to-medium level budgets. The success of such films suggested that Chinese audiences were seeking more than just spectacular special effects and set pieces, but rather congenial characters and vernacular narratives that they could invest in. These lower-budget films would invariably draw upon everyday life, accessible subject matter that was relevant to a contemporary Chinese audience. Films such as *Finding Mr. Right* (XUE Xiaolu, 2013) and *So Young* (ZHAO Wei, 2013) resonated with audiences, stimulating enthusiasm for domestic products (Xinhua, 2014). From this period, there emerged a new, popular genre, the so-called 'light film' (Liu & Wei, 2016).

Light films were predominantly mid-to-low-budget productions. Yet, despite their more limited financial means, these films proved to be fiercely popular, often surpassing big-budget imported cinema at the box-office. In 2013, the so-called light film would become a primary contributor to the box office profits of domestic cinema. So, how might one define the light film? The light film can be characterised by its contemporary, usually metropolitan, setting, its youth-oriented subject matter and romantic overtones. These films are often described as inspiring and heart-warming for their representation of aspirational characters and light-hearted, comedic situations. Within a market dominated by action-oriented IMAX and 3D films, light films have found a lucrative gap within the market, their patiently recounted narratives providing a reprieve from the accelerated pace of Hollywood. Light films were culturally embedded within contemporary China, evoking empathy and respect towards everyday Chinese people who, despite suffering from the ongoing process of economic and social transformation, still strive towards their dreams and towards happiness.

Light films were chiefly the product of a younger generation of up-and-coming directors who would espouse commercial filmmaking practices and legitimise them within the Chinese film industry. Light films embraced the practices of western mainstream cinema, from their script development and production style, right through to their marketing campaign. The light film thus became symbolic of the contemporary, modernised Chinese film industry more broadly, one that increasingly embraced western-style production processes and employed modern modes of marketing in an increasingly diverse media-centric culture, while maintaining a connection to contemporary China and its people.

Besides the newly popular light film, 2013 was also characterised by a number of new, experimental production methods, resulting in an array of novel and, at times, hybrid genres, styles and production practices. Examples of such cinematic production practices include self-produced drama series' broadcast via the web, the development of *Wei Dianying* (微电影), otherwise known as micro movies, and hybrid reality-show movies originating from popular reality television shows.

The self-produced drama series has become an increasingly popular mode of production and has aroused the interest of several online media conglomerates, including Le Vision

(Letp) and Tencent. Multi-national investment holding conglomerate Tencent, for example, established Tencent Penguin Picture, a Shanghai-based production unit dedicated to producing on-line dramas. Penguin typically base their dramas upon popular novels and, thus far, have announced the following projects; *Sha Hai*, *The King's Avatar* and *The Message*, all deriving from popular fiction. These productions all feature popular Chinese stars and cater towards a youth audience. These dramas will be released via Tencent Video, Tencent's video streaming website.²⁷

Micro movies, because of their synchronised development alongside the multi-platform media conglomerate, have experienced accelerated growth. Micro movies refer to short films, both entertainment and advertising-oriented, produced by both businesses and independent filmmakers. Micro movies are uploaded online – typically to video sharing sites such as *Youku Tudou*, *iQiyi* or *Sohu* - and predominantly viewed via mobile phones. The increasingly accessibility and affordability of filmmaking equipment makes micro movies attractive to aspiring or amateur filmmakers. Yet, at the same time, many professional filmmakers have deemed micro movies an effective means of acquiring a certain level of independence from the Chinese censors (Wan, 2014). Such has been the popularity of the micro movie that there now exists several hundred nationally-held competitions and events dedicated to such films. These events engage with a various levels of professionalism and demographics, covering a variety of themes, genres and subject matter. The micro film has also become of increasing interest to film scholars, and its position in academia has helped generate professional discussions on the subject.

Another recent phenomenon has been the development of hybrid combinations of film and television. Indeed, China has seen a range of popular variety shows and reality television programmes adapted into feature-length movies. The *Tiny Times* (GUO Jingming, 2013-2015) film franchise aroused heated discussions around the definition and classification of literary adaptations, because of its fusion of popular culture and trans-border marketing strategies. Such hybrid marketing model offers definite

²⁷ In 2018, Penguin released *Accidentally in Love* (Zhong Qing, 2018), a thirty-episode series in which a popular singer returns to school. The show originally aired between August 8, 2018 and September 7, 2018, proving popular with Chinese audiences. The series was then made available on global streaming service *Netflix* in October that same year. The popularity of online dramas is such that they have accumulated over 1,000 million views.

advantages, due to their ability to incorporate different popular trends or topics. However, this hybrid marketing styles may potentially alienate the franchise's core audience base by flouting their expectations. Ultimately, the success of a new model depends on the artistic ability to adapt, and it would be futile to make the transition from one form to another with the sole purpose of opportunism, and without at least a degree of sincerity (Liu and Wei 2016, 23).

Hybridity would continue to characterise the 2010s; the most significant trend in this regard being the changing participants within Chinese film and television and their links to other industries. A number of powerful Chinese Internet technology enterprises and media conglomerates have become very prominent within the Chinese film industry, their strong investment capabilities, cutting-edge technologies and large and sophisticated data on consumers granting them a very favourable position within the industry. One may argue that the film industry has become somewhat of a battlefield in which Internet companies vie for ascendancy.

A particularly noteworthy trend within contemporary business practices has been convergence. That is to say, the relationship between film and media/Internet conglomerates has reflected a proclivity towards industry cross-overs and internetisation. Take, for example, the case of the Huayi Brothers' multinational entertainment conglomerate who sign a strategic co-operation agreement with Internet conglomerates Alibaba and Tencent in 2014. The agreement would grant Huayi access to Alibaba's e-commerce resources and Tencent's social and entertainment resources, while raising USD 579 million through the private placement of shares.

Additionally, collaborations between Youzu Networks, Alpha Animation, and Huace Media, companies engaged in video games, animation and television respectively, facilitated the creation of film projects based on their current IPs (Entgroup, 2016, 16). The cross-over of film and web-based companies became an important investment target for many industry stakeholders.

By collaborating with Internet companies, the film industry also benefits in terms of promotion and distribution. Not only has the Internet become a key marketing venue, but online companies also engage in web-based ticket sales. Convergence thus became imperative to strengthen the industrial chain.

In 2015, the Chinese film industry produced 686 feature films, and box office revenue stood at over RMB 44.069 billion (about USD 6.8 billion), a 48.7 percent increase from the previous year. Given the upward momentum of the film industry, Chinese filmmakers are increasingly motivated by a desire to achieve the largest commercial return at the expense of quality. In both style and content, Chinese films are still struggling to maintain a consistently high quality. Indeed, one may equate contemporary Chinese cinema to mass-produced consumer goods rather than exquisite hand-crafted pieces of art. The cinematic achievements of fifth generation filmmakers such as ZHANG Yimou and CHEN Kaige appear as distant memories, despite the fact that the industry is becoming increasingly prosperous. These current circumstances pose somewhat of a quandary for Chinese filmmakers; how can Chinese cinema marry artistic quality and commercial appeal?

In addition, because of the recent boom within the film market, certain palpable trends within the production stage have become apparent. These include the rising popularity of animation. In recent years, animation has been able to extricate itself from the assumption that animated films are merely cartoons aimed at a younger audience and engage with notions of comedy, youth, and romance.

Another trend identifiable within the contemporary Chinese film industry is the rising prominence of fan culture. For example, the Anime, Comic and Game (ACG) sub-culture is increasingly penetrating Chinese film production (Zhang 2003, 60-64). The term ACG is a Chinese derivative of Japan's MAG subculture, referring to Manga, Anime and Games. Thus, while China's ACG culture has its origins in Japan, it is a localised version, developed and adapted to better suit Chinese tastes and predispositions. ACG culture has impacted film development by providing an abundance of IP, which stretch across the fields of animation, comics, and gaming. In recent years, ACG IPs have proven to be high box office draws in China, as demonstrated by the success of Japanese anime films, *Stand by Me Doraemon*, (Takashi Yamazaki, Tony Oliver and Ryuichi Yagi, 2014), released in China a year later in 2015, *Detective Conan: Sunflowers of Inferno* (Kobun Shizuno, 2015), *The Last: Naruto* (Tsuneo Kobayashi, 2014) and the Chinese anime film *One Hundred Thousand Bad Jokes* (LU Hengyu and LI Shujie, 2014) to name but a few. Given that ACG culture blossomed with an audience born in 1990s, there will potentially be a

longstanding and considerably sized audience in the near future.

The Chinese film market experienced many ups and downs in 2016. The boom of the previous year was showing signs of decline and the market was experiencing a period of flux and status. It was thus believed the industry was in need of revitalisation, generating a virtuous cycle. However, a more pessimistic view might conclude that shortcomings have emerged within China's production practices, and the Chinese film industry has thus reached a turning point.

2.4 Operational Practices within Chinese Film Production

In 1986, the state transferred management of the film industry from the Ministry of Culture assigned to newly commissioned SARFT. A decade later, the Chinese film industry would undergo further de-centralisation as, in 1996, the state placed local production studios under the remit of regional film organisations that functioned under the umbrella of SARFT. Thirty years of subsequent reforms and initiatives have thus seen the state transition from a mechanism of control to one of guidance.

With regards to the Chinese production system, as I discussed in the Industrial Context chapter, the 'Changsha Conference' of 1996 proved to be an important milestone in the de-centralisation of the film industry. From the discussions and debates that transpired during the conference, it was deemed necessary to end the monopoly of the state-owned film studios, and allow the private companies to participate in film production. As a result of this decision, the number of film production studios expanded, with new private studios being established in Nanjing, Tianjin, Shanxi, Jiangxi and Heilongjiang. Furthermore, a number of private enterprises also obtained the necessary certification for producing films. By 1995, the number of films produced or financed by private enterprises already occupied over half of the total number of the domestic films produced. By permitting private enterprises access to the production stage of filmmaking, the Chinese film industry not only expanded the scale of production, but also introduced the market mechanisms into the filmmaking process (Jin, 2014, 127).

2.4.1 Domestic production

2.4.1.1 Ownership Diversification

As part of the widespread economic reforms that transpired in China from the late 1980s, the film industry has witnessed a number of transitional stages and, to this day, the process of development and evolution continues. The diversification of film production ownership has been widely perceived as a landmark reform in the establishment of the modern Chinese film industry.

About two decades ago, only a select few organisations were permitted to engage in filmmaking. These included the central government and its regional divisions and sub-divisions, state departments and the military, who budgeted and financed filmmaking. The themes and genres of films produced under this system were consequently limited and heavily shaped by the organisations that produced them. For example, most war films made between 1949 to 1985 came from the Bayi Film Studio, a studio completely owned by Chinese Liberty Army (the Army was established at 1st August (八一) in Chinese and pronounced as 'Bayi'). Films produced in this period were thus imbued with contemporary political agenda, national ideology and sought to indoctrinate citizens with approved histories, even if these histories defied citizens' own memories and experiences. Filmmaking was, for the most part, completely detached from the needs of the audiences and instead planned to suit the ideological needs of the authorities.

The centralised Chinese film production system ultimately left the industry in a state of economic depression. In the late 80s, films from Hong Kong and Hollywood were increasingly entering China, exposing the inferiority of domestic productions and highlighting their ideologically-imbued make-up. Although a large portion of these international films were illegally imported and did not play in licensed cinemas, such films served to remind Chinese audiences of the joys of entertainment-oriented cinema and the lack of such cinema within the domestic market. Chinese films consequently lost a large portion of their audiences, which was only exacerbated by the fact that the production system would limit talented filmmakers to merely making films that could compete with Hong Kong and Hollywood films, despite China not having the infrastructure or expertise to make such commercial cinema. Indeed, many film

institutions during that time were inactive and many cinemas, especially those that were limited to mainly exhibiting Chinese films, would close.

The state thus realised that the current filmmaking infrastructure was seriously flawed and in urgent need of reform. As was the case in many other industries in China during that period, ownership was diversified and private investment was facilitated. However, unlike these other industries, film was still perceived as a cultural product with longstanding ties to the communist regime and thus identified as a tool of the state. As a result of this enduring legacy, the diversification of film production ownership was a long and tentative process, and it was not until 2003 that the legislation of film industry development was passed by the Chinese congress.

2.4.1.2 Main Players

The China Film Group (CFG), the Shanghai Film Group (SFG) and the Changan Film Group may all be classified as large state-owned production enterprises, while other SOEs may be defined as small or medium-sized production enterprises. In addition, according to a given company's scale, social influence, and the number of films produced, private film enterprises could also be divided into large and small categories. Large private film enterprises may include those that are vertically integrated, such as Warner Brothers, Polybona Films, the Star Beauty Media Group. Large private enterprises may also include those that have a long history of operation and their films have the certain social influence in China, such as Beijing New Picture Studios. Additionally, large private enterprises may be those that have the support of other media industries, such as Beijing HaiRun Film Co., Ltd., Enlight, and Tianyu Entertainment Media Co., Ltd. Finally, large enterprises may include those that have a large shooting platform, such as Hengdian Film Group. All of the above may be classed as large private-owned filmmaking enterprises, while others are typically defined as either medium or small privately-owned enterprises.

With the rapid expansion of the Chinese film market, investment within the industry has become an increasingly attractive proposition for stakeholders. In addition, investors have been encouraged by the government's financial incentive schemes and tax breaks,

and by the fact that the barriers of entry within film production have been greatly reduced.

In contrast to Hollywood, whereby film production is dominated by the 'Big Six,' production in China is distributed among hundreds of production companies. From 2011 to 2014, the top ten production companies occupied about a quarter of the total production in China, and there is no single company that can claim to monopolise the industry. Indeed, given the rapid success of the Chinese film market and its potential for further expansion and development, the industry continues to attract newcomers hoping to capitalise upon what has been one of China's most lucrative industries.

Just a few companies consistently rank amongst the top ten production companies in China. Between 2011 and 2014 these included the China Film Group Corporation (CFG), Beijing Enlight Media, and the Huayi Brothers Media Corporation, with many other production companies benefitting from short term investments on a single production. Perhaps the most prominent production company in China is the CFG. However, the CFG produces no more than 5 percent of China's total film production, a significantly lower figure than the 21.65 percent produced by Universal Pictures in the North American market, for example.

The production data taken from the Chinese film industry in both 2002 and 2011 are shown in the table below:

	2002	2011
SOE medium and small enterprises	Produced 28 30.43%	Produced 70 12.54%
SOE Large enterprises	Produced 43 46.74%	Produced 43 7.71%
POE Large Enterprises	Produced 4 4.35%	Produced 22 3.94%
POE medium and small enterprises	Produced 1 1.09%	Produced 354 63.44%
Co-production	Produced 15 16.3%	Produced 35 6.09%

Non-traditional production studios	Produced 1 1.09%	Produced 35 6.27%
Film Producing Number	92	558

Figure 8 The production data taken from the Chinese film industry in both 2002 and 2011²⁸

As can be seen in the above table, the proportion of films produced by state-owned production companies has gradually decreased, falling from 77 percent in 2002 to about 21 percent in 2011 (Zhang, Tan, and Liu, 2017,16). Additionally, the development of private film enterprises has dramatically transformed the pattern of Chinese film production. Private film companies produced only five films in 2002, accounting for little over five percent of the total cinematic output. Conversely, private enterprises produced 376 film, accounting for two-thirds of the China's annual production totals (Zhang, Tan, and Liu, 2015, 17).

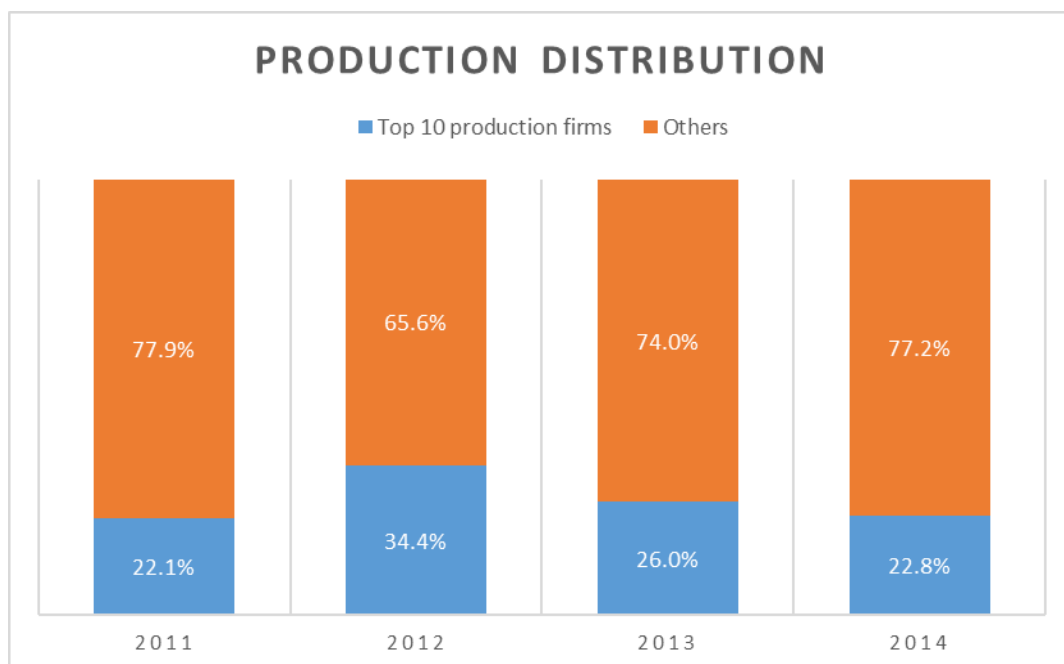


Figure 9 The proportion of top 10 production companies in the national quota share²⁹

²⁸ Zhang, Tan, and Liu, 2015, 16.

²⁹ China Film Association: The research report 2014.

As indicated in Figure 9, the market for Chinese film production is rather diverse, with the top ten film producers accounting for only 22.8 percent of the market in 2014. The high distribution of Chinese film producers suggests that film production within Chinese film industry is still in somewhat of an emergent state. Industrial developments and increasingly accessible funding opportunities have encouraged many corporations and businesses to enter the Chinese film production market, as the barriers of entry within the industry have lowered significantly. In 2011, CFG (a SOE) was the largest film producer in China, with a 4.1 percent market share. CFG were closely followed by Wanda Media, who had a 3.2 percent market share, and Bona with 2.6 percent. There has also a notable trend in recent years that has seen film producers expand and diversify their businesses. For example, the Huayi Brothers Media Corporation has expanded into mobile gaming and Internet distribution.

By the end of 2016, there were more than 2,300 film and television production companies operating in China. The majority of these companies were of a small or medium size, and only a dozen or so had good scale and development (China Film Association, 2017, 86). The total number of films produces has increased year on year predominantly due the fact that new production companies emerge every year, which also accounts for China's high film production distribution and the interchangeability of China's top ten production companies.

However, this thesis argues that the market concentration rate of the production studios needs to increase. It is believed that, in the next few years, the number of production companies will be reduced as the top production companies grow and become more stable. In the foreseeable future, it is likely that the top productions companies will expand their assets through merges and acquisitions and become increasingly global in style and scope.

(1) Privately-owned producers

In order to stimulate the film market and nurture a greater level of competition and marketisation, the Chinese government gradually allowed films produced by non-stated-owned studios to be distributed. However, these films would undergo a stringent censorship process before they were permitted to be exhibited.

This diversification of production ownership encouraged independent filmmakers to enter the market. Under this new system, it was believed that there were greater opportunities for those who had not been part of the previous production system. Capital investment from both public and private sectors saw films being produced without money from the state and this increasing openness within film production offered greater opportunities to filmmakers. Private studios had fewer obligations towards the political regime and so they could offer more variety and more challenging content, although censorship was still a reality. However, one must acknowledge that while there was indeed a greater sense of openness within Chinese film production, market obligations bought with it its own sense of soft-censorship. Profit-making became the primary goal for private firms and, as a result, while their works was invariably more audience-oriented, films seldom took risks and tended to recycle popular trends and characteristics. Indeed, private production companies have become particularly specialised in capitalising on popular trends in order to maximise profitability.

Since 2003, the restriction within Chinese film production have eased and, consequently, the number of non-state-owned film production firms increased dramatically, facilitating further growth within the Chinese film market. The financially lucrative nature of the film industry has also encouraged private enterprises to invest in film production or establish their own studios. Perhaps the most famous example of this has been the Wanda Group, one of the world's largest real estate company founded by WANG Jianlin. Wang has been vocal in announcing his ambition to establish Wanda as a prominent player within the film industry. Wanda have subsequently made a number of aggressive corporate purchases, including Hollywood entities such as the production company Legendary. Outside of Wanda, large IT conglomerates such as Tencent and Alibaba have invested enormously in film production. It is worth noting that these industry newcomers not only focus on film production but also distribution and exhibition. Doing so allows them to maximise their presence within the industry by taking advantages of their pre-established primary businesses, those being commercial property and IT services in the aforementioned examples.

Furthermore, non-state-owned studios in China enjoy greater levels of flexibility in terms of financing. Private firms have benefitted from the increasing openness of China's

capital market. A number of privately-owned production companies have become publicly-owned and reaped the financial rewards of public investment. Without a doubt, the openness of film production to non-state-owned studios began an on-going process of development and prosperity within the Chinese film industry.

Some of the main privately-owned film production firms are The Huayi Brothers Media Corporation, Huace Film& TV International Media Co., Ltd, Enlight Media Group, Bona Film Group Limited, Le Vision Pictures, and Wanda Media.³⁰

In 2014, the top grossing 15 films accounted for approximately 30 percent of the market share, equating to an average of 2 percent per film. Thus we see that the Chinese film market remains relatively scattered, with no significant difference between types of films produced or their subject matter (Entgroup, 2016). Among traditional film production companies, the state-owned China Film Group has maintained a leading position due to the quantity of films produced. Wanda Media, alternatively, has strengthened its film production business and subsequently become the leading private film production company. The market shares of Enlight Pictures and Huayi Brothers declined somewhat due to the former's efforts in promotion and exhibition, and the latter's implementation of film removal strategies. As a subsidiary of the Movie Channel-CCTV6, m1905.com ranked within the top five Chinese production companies, experiencing an accelerated rise thanks to the box office success of *Transformers: Age of Extinction* (Michael Bay, 2014). The cultural investment company, Beijing HuagaiYingyue Entertainment acquired a 1.27 percent market share by participating in the production of *Breakup Buddies* (NING Hao, 2014). Alternatively, Beijing Asian Union Culture & Media Investment, Huace Film & TV and Talent International Media Group all successively entered top ten thanks to the increasing intersectionality of Chinese film and television(Entgroup, 2016, 14).

	2011		2012		2013		2014	
Ranking	Company	Quota	Company	Quota	company	quota	company	quota
1	CFGC	4.18%	ENLIGHT MEDIA	7.02%	CFGC	4.97%	CFGC	4.08%
2	Bona	3.62%	Huayi Bros	6.61%	ENLIGHT	3.33%	Wanda	3.17%

³⁰ Detailed companies' information see Appendix 5.

					MEDIA			
3	Huayi Bros	2.3%	Ying Yi Tong	3.06%	Huayi Bros	2.75%	Bona	2.57%
4	Beijing Galloping Horse Media Co., Ltd	2.09%	Beijing Zhenledao Media Co., Ltd	3.06%	Village Roadshow Entertainment Group	2.73%	Levp	2.43%
5	CCTV-6	1.94%	H/B Studio	3.06%	CCTV-6	2.63%	1905	2.15%
6	Shanghai Film Group	1.77%	CFGC	2.61%	China Vision Media Group Ltd.	2.37%	Beijing Galloping Horse Media Co., Lt	2.12%
7	Jiangsu Broadcasting Corporation	1.60%	Hangzhou Culture Radio Television Group	2.28%	Bona	2.01%	Beijing Skywheel Entertainment Co.	1.77%
8	Zhonglian Jinghua	1.56%	H&R Century Pictures Co., Ltd	2.23%	TIK FILMS	1.95%	H/B Studio	1.64%
9	Henan Film Group	1.55%	Huaying wenxuan	2.22%	MaxTimes	1.67%	Zhonglian Huameng	1.48%
10	National Beijing Chang Sheng Stoneman Films Ltd	1.50%	Wasu	2.22%	EE Media	1.55%	Huace Group	1.35%

Figure 10 Top 10 Chinese Production Companies and Their Percentage Market Share, 2011-2014³¹

(2) State-owned Studios/Enterprises

Since initiating market-oriented reforms, China's state-owned enterprises (SOEs) have blazed a trail in modern enterprise development. SOEs have kept pace with market development by initiating a number of difficult reforms such as the merging of well-established studios. However, SOEs enjoy a number of competitive advantages over their

³¹ Entgroup, *China Film Industry 2014-2015*.

privately-owned counterparts. For example, the state's powerful distribution networks continue to dominate domestic film distribution and state controlled theatre circuits employ an enforced share guarantee scheme that encourages exhibitors to promote state-produced films. State-produced films thus continue to take a notable percentage of China's total box-office takings and SOEs continue to have significant impact on other market participants within the Chinese film industry. The relationship between the government and its SOEs has changed since the mid-to-late 1980s, and SOEs are increasingly seeking to maintain decision-making authority in order to enhance their ability to adapt in the now more diverse and competitive Chinese film market.

The rise of non-state-owned production firms and the overall boom within the Chinese film market has encouraged state-owned film produces to adapt and evolve. Since 2010, state-owned production companies have benefitted from government subsidies and other surprised structures. Although the state still dedicates a certain amount of their cinematic output to films serving their political agenda, state-owned production companies have increasingly began to engage in more contemporary themes and genres in order to attract Chinese cinema-goers and remain competitive.

In order to obtain more capital and commercial momentum, large state-owned film companies have shown interest in privatising some of their assets. For example, in 2004, China's leading state-owned film company, CFG planned an IPO at the Hong Kong Stock Exchange Market. However, the proposal was rejected by the Chinese authorities.

As the Chinese film market has experienced near-constant prosperity and upward momentum since 2010, state-owned film companies have contemplated further market-oriented reforms and restructurings. In 2010, the influential legislation, 'Promotion of Chinese Film Industry', finally granted support to the capitalisation of state-owned film companies. Consequently, CFG issued its public offering in Shanghai Stock Market in 2015 (Coonan , 2015).

The evolution of China's state-owned film production companies could have potentially led these firms to fall behind their non-state-owned equivalents owing to the state's sensitivity towards the culture industries and their desire to protect their assets. Nevertheless, the state has incrementally embraced economic openness, and consequently the competition between the state and non-state owned production

companies has benefitted the Chinese film industry as a whole.

(3) Internet Companies

The high rate of growth within the Chinese film industry has attracted many new entrants into the market. In 2014, the Internet companies represented by BAT (Baidu, Alibaba, and Tencent) would enter the entertainment industry and, in doing so, would fundamentally change the structure of the film and television industry, disrupting the tradition chains of production, distribution and exhibition by introducing new, contemporary channels such as crowdfunding, online video platforms, fan discussion forums and user data analysis(Entgroup, 2016,28).

BAT expanded from their origins in video hosting to engage in a host of film-related business activities. They have been involved in content production and mass marketing, IP development, crowdfunding investment, big data analysis, online ticketing services and VOD. As a result, the established nodes of the film and television industry have become increasingly diversified. The increasing integration of film and television, and the Internet has brought new economic opportunities and infrastructural changes, as both film and television, and the Internet are becoming ever-more closely linked to the urban economy and the public's media consumption(Entgroup, 2016, 28).

Online media developments invariably impact upon the film and television industries, often producing new modes of production, distribution and exhibition and thus new business opportunities. Consequently, the Internet companies rich in resources and assets have been best able to integrate into the film and television industries. For example, online video platforms and user information can prove to be particularly lucrative assets. Indeed, based on big data technology, audiences' preferences, expectations and even viewing habits can be monitored and calculated. This data can then be used to shape production and guide marketing and promotion(Entgroup, 2016, 32).

Additionally, many Internet companies hold a number of IP resources because, firstly, many novel and/or popular ideas have emerged online from Internet content, or have spread via the Internet. Consequently, Internet companies are granted the first opportunity to contact authors and purchase IP's and assets. Secondly, Internet

companies are well financed and have greater purchasing power. Owning a great number of IP resources as assets places Internet companies in a very strong position within the film industry. IPs can be developed by fans and audience members, and specific films are produced according to data taken from these audiences. In terms of investment, BAT has increasingly been perceived as a valuable and potentially-lucrative joint venture partner for film production companies. Not only do Internet companies seek optimal capital co-operation and resource integration, but they also provide access to new online strategies that ultimately cut the cost of both online promotion and offline production volume(Entgroup, 2016, 32).

Apart from BAT, other prominent Internet companies include Le Vision Pictures (owned by LeTV), Ali Pictures (owned by Alibaba), iQIYI Motion Pictures, Heyi Pictures (owned by Youku Tudou), Tencent Pictures, and Penguin Pictures (owned by Tencent). Moreover, there has been a considerable number of collaborations between traditional film producers and Internet companies in recent years.

2.4.1.3 Financing and Budgets

Financing is a very important part of the production process. According to Wasko (2008, 52-53), financing usually is arranged during the development or pre-production stage and is a significant factor in determining whether a film will indeed be made and who will be involved in the project. Financing strategies and funding sources differ depending on whether the film is being produced by one of China's major film studio or an emerging or independent studio. The influence/involvement of finding sources in the production/distribution of a given film may also vary depending on their industry power.

Types of Financing

In China, film financing can come in a variety of forms, these include:

(1) Financial Support from The State

Keane et al. (2005) discuss financing within the creative industries of China, in which they indicate three principle categories of financial support; those being 'Public support'; 'Private/Corporate investment' and 'Hybrid/Other' (312-313). The third category,

‘Hybrid/Other’ is perhaps somewhat more ambiguous than the two preceding it, but it essentially refers to funds made up of both public and private sources. In such cases, the government or investing business will invariably provide seed funding or start-up capital, which leads to further investment from other parties, eventually inaugurating a kind of co-production or similar joint venture. The authors suggest that these categories are far from mutually exclusive and overlaps between the three are common.

In China, the government provides a significant amount of funding and takes financial responsibility for building and developing of China’s production and distribution sectors. However, this financial support is granted as a means of marketisation, in order to develop a film market that is commercially independent and able to sustain under market conditions. Essentially, as Keane et al.state, the government’s support is ultimately used to ‘wean [the creative industries] off the public purse’(Kean et al. 2005, 314). As a result, the state actively encourages producers to commercialise their output and strive to be more profit oriented. At the same time, the state encourages both producers and distributors to secure commercial investment. The government then increases taxation on the industry to return its investment (Kean et al. 2005, 314).

(2) Special Funding Support for Film

Urban cinemas are subject to a five percent charge on ticket sales, which subsidises the National Special Film Fund. Under the National Special Film Fund, if a given cinema’s takings for domestic films exceed 50 percent of their total box office revenue, then they will be eligible to receive a 100 percent rebate on the five percent paid to the National Special Film Fund. If domestic films account for between 45-50 percent of their total box office revenue, they would receive an 80 percent rebate, and for under 45 percent they would receive a 50 percent rebate.

Additionally, if more than 50 percent of a cinema’s total number of screens are digital, they will be eligible for a 100 percent rebate from the National Special Film Fund for three years.

Furthermore, between January 2014 and December 2018, sales generated from selling film prints, selling copyrights, income generated from film distribution, and box office revenue from rural theatres all enjoyed a VAT waiver (Hu, 2016).

According to Article's 16, 37, 38, 39, 40, 41, 42, 43, and 45 of the 2016 Film Promotion Law, the state will offer all-round support through preferential policies. Specific measures are to be promulgated by the tax authorities of the State Council. Moreover, as result of local governments having increased management functionality, they can also provide relevant support to local film enterprises.

Certain incentives are regional specific. Take, for example, the joint-funded incentive scheme established by the Wanda Group and the Qingdao municipal government. This scheme offers an up to 40 percent tax rebate for qualifying expenditure in the Qingdao region of eastern China. The rebate is eligible to both Chinese and international participants and is subsidised by a USD 750 million (CNY 5 billion) film and television development fund due to be allocated between 2016 and 2021. The fund was instrumental in the development of Wanda Studios Qingdao, the first fifteen lot shooting studios in the Qingdao Movie Metropolis.³²

The 40 percent tax subsidy offered by Wanda and the Qingdao government is one of the world's largest, surpassing the 30 percent offered by the state of Louisiana – among the highest in the U.S. – and the 30 percent offered by Malaysia, one of the most generous tax incentives offered in Asia. Incentives schemes like the one offered by Qingdao will undoubtedly encourage international productions to shoot their films in China, as will the availability of state-of-the-art studio facilities.

The government has offered increasingly alluring benefits to attract international producers, with the hope that said productions will stimulate the local economy. Cast and crew will naturally require accommodation, transportation and food during the production and the allure of big-budget movies, especially from Hollywood can, in turn, bolster tourism and other areas of the economy.

(3) Co-financing

In China, co-financing is perceived as a means of easing the release schedule for domestic films, especially those with larger budgets. Co-financing also alleviates a certain degree of competition with films produced by the same production companies

³² Studio facilities will include 30 sound stages including the world's largest at more than 107,000 sq., a permanently heated underwater stage, and a 221-acre backlot.

so that they may achieve the best possible box-office results in their opening week(s).

Co-financing, also helps smaller studios to expand. In China it is not uncommon for films to be financed by more than three production studios. Some larger enterprises co-produce films with smaller studios, decreasing the risks involved for the smaller studios and ensuring that the film gets completed.

In addition, a more contemporary trend within the Chinese film industry has been the rise of sponsored financing, in which films are funded by companies from outside the creative industries allowing them to insert embedded marketing within the film. That is to say, the films include production placement, in which specific brands or products are featured within the film as a means of promotion.

(4) Funding Sources

In China, film production funds invariably come from four principle sources: the existing capital of state-owned or private enterprises, investment from other industries, commercial loans provided by financial institutions and overseas investment. The diversity of funding sources promotes increased film production and improves the variety and market adaptability of domestic cinema. This is especially true of investment from outside the film industry and investment from overseas, which continues to directly impact the development of the Chinese film industry and its output. The annual production of Chinese films has increased dramatically, from 526 in 2010 to 772 in 2016. Such an increase not only demonstrates expansion within the Chinese film industry, but also vindicates China's marketisation process.

Sources of funding within the Chinese film industry can be somewhat transitory and short-lived. Given the success of the Chinese film industry over the past few decades and its escalating market position, film has been widely seen as a fashionable, and potentially lucrative, avenue of investment and, consequently, many financing schemes have come and gone. For instance, between 2012 and 2016, crowdfunding became a popular forms of financing, with many studios, as well as some production companies, arranging funding from such private equity funds.

(5) Budget Scales

The budget takes into account both above-the-line and below-the-line costs, which is

also the way that labour dynamics are referred to the production process. Above-the-line costs include major creative costs or participants (writer, director, actors, and producer) as well as script development costs. Below-the-line items are technical expenses (equipment, film stock, printing, etc.) and technical labour.

While financing is a major challenge for most independent filmmakers and small studios, it is less problematic for film projects that involve the major studios. The entire cost of development and production will typically be paid by the studios, which will then own the film outright. Consequently, the low and middle budget films are increasingly popular with film studio, as they are potentially less risky.

One of the first successful low-budget film was *Crazy Stone* (NING Hao, 2006), a comedy that widely attracted Chinese audiences and surpassed critical expectations. Before this film, few in China believed that low-budget films could be good box office earners. However, *Crazy Stone* defied these assumptions, the film was made on a RMB 3 million (about USD 468,750) budget, but went on to earn RMB 23.5 million (about USD 3.7 million) at the box office. In 2011, another low-budget film, the romantic comedy *Love is Not Blind* (TENG Huatao, 2011) would mirror *Crazy Stone*'s success. Made on a budget of just RMB 9 million (USD 1.4 million), the film made RMB 300 million (USD 46.9 million) in box office revenue.

In China, low budget films typical refer to those that cost under 10 million RMB (about USD 1.6 million) and do not have stars to carry the project. Meanwhile, middle budget film are classed as those that cost between RMB 10 million to RMB 70 million (USD 1.6 million to 10.9 million). Films regarded as high budget, typically have a budget of over RMB 80 million (USD 12.5 million).³³

Between 2010 and 2016, low and middle budget films became more increasingly more complex and sophisticated, and began to attract the attention of popular Chinese stars. As a result, the cost of low and medium budget films increased slightly. However, these figures remained relative to the larger budgeted commercial blockbusters. Therefore, smaller and medium budget films remain a commercially viable area of filmmaking, and

³³ There is no unified standard in the budget scale of films. The data provide is a summation derived from news sources, interviews, and secondary sources from film insiders.

their production helps further diversify Chinese cinema.

The Chinese film market is currently showing signs of seemingly infinite vitality, which, to a significant degree, can be attributed to the success of domestic low and middle budget films. Many new directors including XU Zheng, ZHAO Wei, DENG Chao, HAN Han, GUO Jingming have come to national prominence thanks to low and middle budget films, and have since acquired good standing as reputable filmmakers. Furthermore, some of leading filmmakers in Chinese, such as JIANG Wen, ZHANG Yimou, XU Anhua, HOU Hsiao Hsin, began as directors of low and middle budget films.

Low to medium budget films are typically comedies, romances, and fan-culture films that already have a strong audience base. However, because the low and middle budget costs provide a lower threshold of access into the film industry, such films invariably expected to be of a higher artistic quality (Wu 2015).

2.4.1.4 Genres and Forms

Film genres in China have experienced conceptual changes as the Chinese film industry has developed and film culture has blossomed over the past two decades.

During the socialist period prior up until the 1980s, the government would officially define and authorise film genres under its centralised production system. Furthermore, the government would be instrumental in establishing a number of genres unique to China, products of China's propagandist and pedagogical cinema. Under the quota system, state-owned film studios were obligated to engage with specific themes and subject matter, which produced genres such as the countryside film (*nong cun ti cai*), films that concentrate on reform (*gai ge ti cai*), or those that engaged with revolutionary history (*ge ming li shi ti cai*).

In the 1980s and early 1990s, the collapsing studio system providing limited space for alternative voices. While China's new commercially oriented film industry had yet to fully develop, traditional socialist film genres were being challenged on two fronts.

On the one hand, the Fifth Generation of Chinese filmmakers would come to prominence during this transitional period. Prominent amongst this generation were ZHANG Yimou,

TIAN Zhuangzhuang, CHEN Kaige and ZHANG Junzhao. These filmmakers, many of which had previously operated underground, began to dismantle previously established film genres with experimental films emphasising artistic and ideological innovation, and iconoclasm.

On the other hand, government cutbacks and an increasing demand for popular cinema saw many Chinese film studios begin to produce commercially oriented cinema, films that would incorporate elements of popular international genres. However, even though some of these early genre films did achieve box office success, there was no consistent or conscious effort to build up genre films as both an artistic and institutional alternative to art house and socialist propaganda movies. In fact, both the filmmakers and film critics saw these commercial films as “lower form[s] of business”, whose purpose was merely to subsidise “real” films, be they “political”, such as government propaganda, or “artistic”, such as the avant-garde works of the Fifth Generation (Kong, 2007).

After two decades of development, contemporary Chinese cinema embraces a wide variety of genres, including comedies, romances, drama, fantasy, thriller, horror, action, sci-fi, animation, documentary, crime, war and some non-genres with Chinese characteristics, such as the main-melody/main film, the new-year comedy film, the Chinese-opera film, the variety show film, and so on.

According to Industry data (Figure 11; Figure 12; Figure 13; Figure 14) highlighting the breakdown of the film genres produced in Chinese in 2013, 2014 and 2015, the most popular genres in Chinese domestic cinema were comedies, romances, action films, animated films and horror/thrillers.

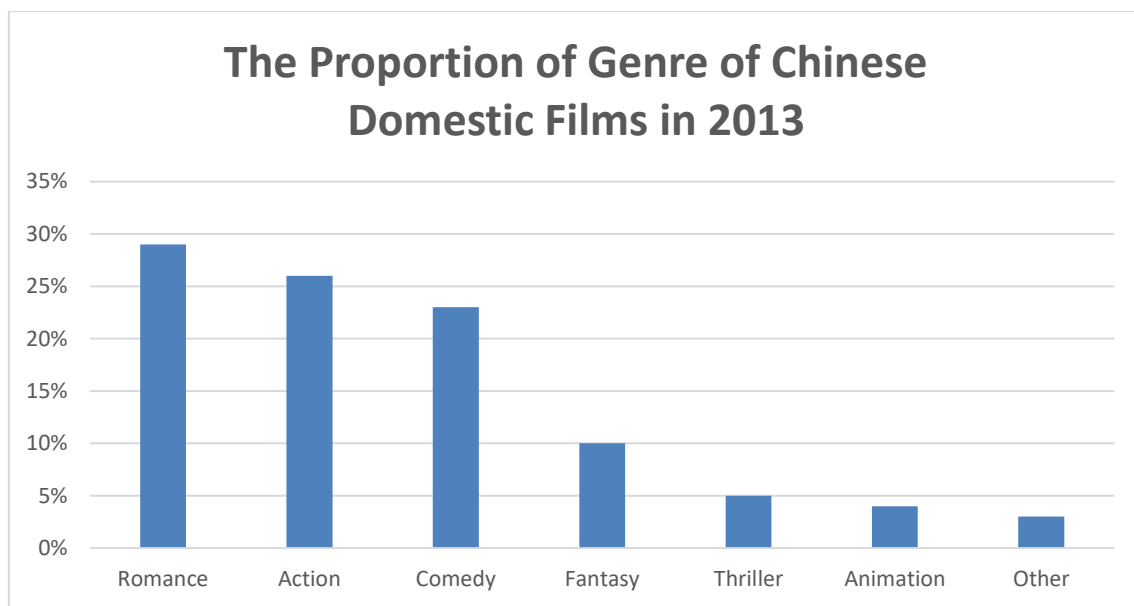


Figure 11 The proportion of production genre of Chinese films in 2013 ³⁴

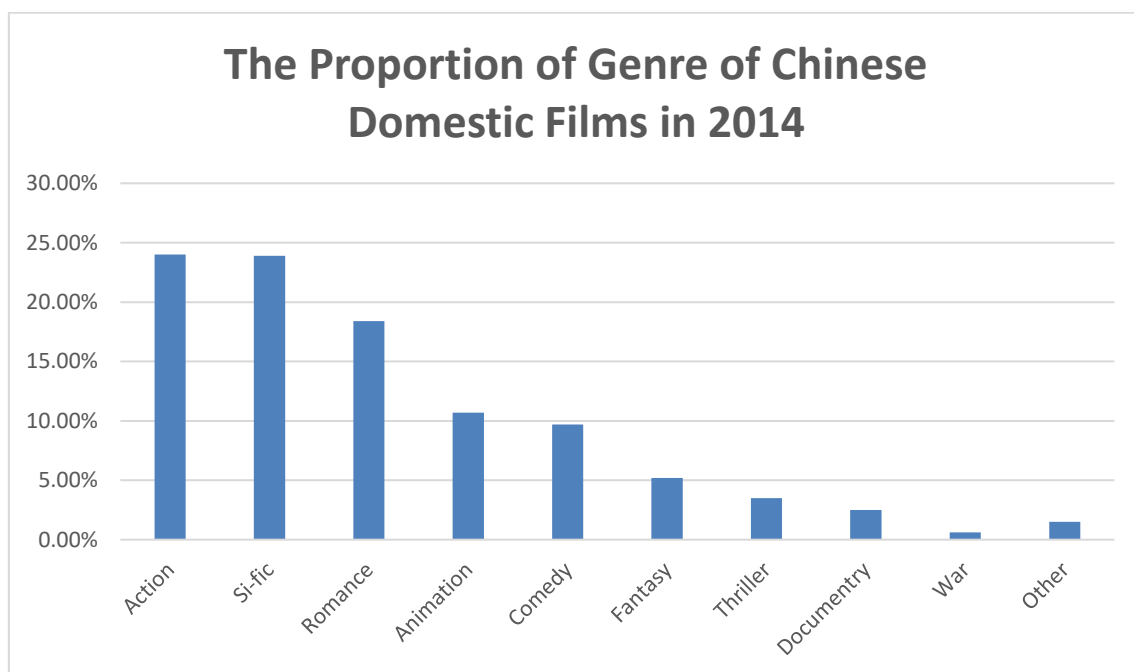


Figure 12 The proportion of production genre of Chinese films in 2014 ³⁵

³⁴ Entgroup, China Film Industry Report 2013-2014 (shared version), 2014, 23

³⁵ Entgroup, 2016, 17

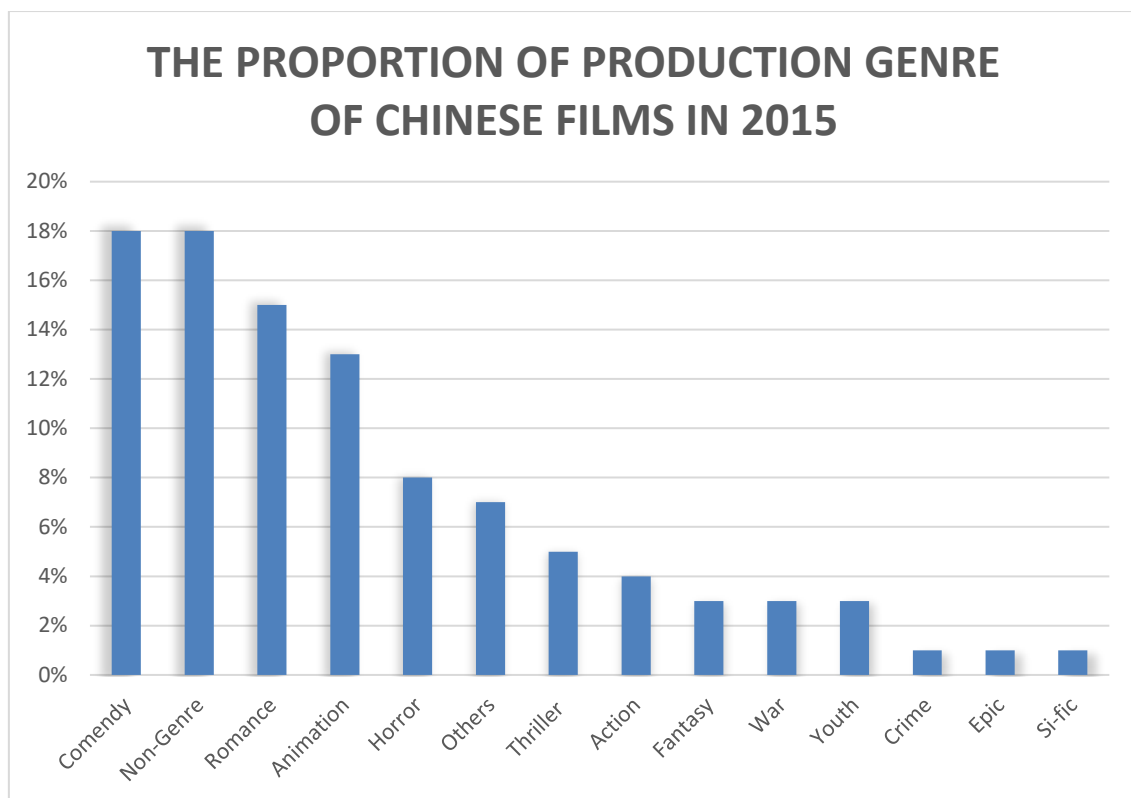


Figure 13 The proportion of production genre of Chinese films in 2015 ³⁶

	Action	Comedy	Romance/Youth	Animation	Thriller	Horror	War
2014	6%	23%	21%	15%	5%	11%	4%
2015	4%	18%	18%	13%	5%	8%	3%
2016	6%	21%	20%	10%	6%	10%	3%

Figure 14 2014-2016 the trend of production genre of Chinese films ³⁷

When analysing the percentage proportion of genre films produced between 2014 and 2016 (Figure 14), what becomes apparent is that the most popular genres tend to be those aimed at a younger demographic, namely, comedies, romances and animated films.

Between 2010 to 2016, three prominent trends can be identified within Chinese film

³⁶ China Film Association, 2016, 16

³⁷ China Film Association, 2017, 58

production.

(1) High-tech Films

In China between 2010 and 2016 there has been an increasing audience preference for films produced with state-of-the-art technologies, such as 3D and IMAX (Image Maximum). Chinese audiences have come to expect high quality special effects in motion pictures and are not off put by the additional costs charged for 3D or IMAX exhibition. Indeed, within just a decade, China has acquired the second largest number of IMAX theaters in the world. This suggest that there is a demand for the latest exhibition technologies and a potential source of additional income for Chinese exhibitors.

Following the success of imported blockbusters employing cutting edge exhibition technology, the competition from domestic producers severely intensified and Chinese film production teams learnt from their western counterparts. As demonstrated in Figure 15, in 2010, just three 3D films were produced in China and one IMAX film. However, by 2015 these figures had risen to 41 and 34 respectively. Production companies typically use 3D or IMAX as an unique selling point alongside stars, the film's high budget, or the production company's transnational partner. Indeed, it is widely assumed that the inclusion of advanced screen technologies gives a film a greater chance of achieving commercial success in the Chinese film market. Chinese blockbusters embracing new technologies are also having significant global impact. IMAX's top-grossing local-language films are all from China, examples include *Man of Tai Chi* (Keanu Reeves, 2013) and *Mojin: The Lost Legend* (Wuershan, 2015).

Owing to these recent successes, the Chinese government now actively encourages production companies to make films using cutting-edge technologies. Such high-tech films have additional value in that they have potential to stimulate related technological industries specialising photography, computer graphics, and digital systems. Technology companies have been warmly welcomed in China in recent years, however, most of these companies are recent start-ups in the early stages of developed. Collaborations with the film production companies are thus perceived as beneficial to technology companies, as engagement within the entertainment industry can provide these companies with an unprecedented amount of publicity.

Given that China's film technology industry is still in a state of development and lacks the international reputation of the global technology giants, the government provides support to in the form of tax concessions. Such provisions makes entry into the creative industries more feasible and help these newly established technology companies develop business relationships with production companies, exhibitors or other film-related industries.

Secondly, for a significant portion of the Chinese cinema-going audience, the watching experience is often more important than the individual film being exhibited. As a result, cinemas housing the most up-to-date facilities will likely attract the greater audience numbers because of the unprecedented luxury and spectacle they offer. Undoubtedly, the growing momentum of high-tech film production facilities in China is fuelled by their commercial appeal.

Aside from the unprecedented growth in high-tech films production, production companies are increasingly showing interest in technological development and ownership, which has been a caused concern amongst China's western counterparts. Take IMAX as an example, films made in for IMAX theatre need to adopt the appropriate technologies from the IMAX Corporation. In China, although IMAX does not operate its own cinemas, Chinese exhibitors that use IMAX technology and equipment must meet certain requirements during the shooting process in order for their films to comply with the exhibition standards made by the IMAX Corporation. However, two of IMAX Corporation's biggest customers – Wanda Cinema and CJ CGV, which account for more than half of IMAX cinemas in China – have developed their own propriety systems of high-resolution cinematographic technologies, in order to reduce their dependence on the IMAX Corporation.

At the same time, the state-owned China Film Giant Screen (CFGS), part of the China Film Group Corporation, has also established a strong presence in premium large film format market. CFGS has the additional advantage of being favoured by the government, which ultimately puts them in a potentially propitious position, given the government's continued influence within the Chinese film industry.

Therefore, high-tech cinema has a bright future in China, as do the domestic industry participants currently developing their own proprietary technologies. It is likely that in

the near future, foreign companies will have to react to these recent developments and change their business models, else lose relevancy in a continually advancing industry.

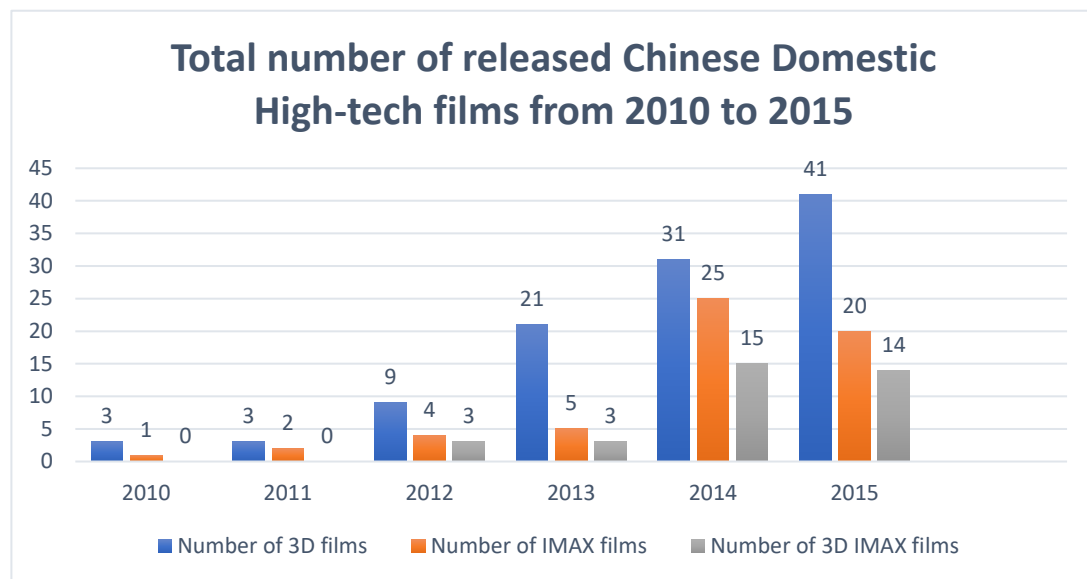


Figure 15 Total number of released Chinese domestic High-tech films from 2010 to 2015³⁸

However, developments in film technology exceed those of high-definition widescreen formatting. Another key development has been that of 3D. 3D technology has advanced significantly over the past decade, leading to its more regular and skillful application. The underwater 3D cinematography seen in the action-adventure film, *Young Detective Dee: Rise of the Sea Dragon* (2013), the 3D special-effect explosion in *Firestorm* (Alan Yuen, 2013) and the 3D special-effects seen in *Out of the Inferno* (Danny and Oxide Pang, 2013) all demonstrate the high levels of creativity and spectacle that has popularised 3D in Chinese cinemas.

One genre that has increased in relevance in contemporary Chinese cinema is the thriller. Their specialised aesthetic appeal and penchant for edge-of-your-seat set pieces has produced relatively stable market demand. However, the growth of the genre has been somewhat hampered by the inconstant quality of locally-produced thrillers. The contemporary era can thus be understood as a period of adjustment for Chinese thrillers; their quality and, accordingly, their market potential have been increasing in recent years, bolstered by significant financial investment and the increased proficiency of Chinese filmmakers in making contemporary thrillers.

³⁸ China Film Association, *The Research Report 2016*, 19.

China has thus undergone transformation to an era of big-budget productions. During this time, the overall quality of films has improved significantly as Chinese filmmakers familiarise themselves with the practices of making big-budget, high concept cinema. For example, the 3D animated action-adventure film, *Fantastic Adventure* (SUN Lijun, 2013) won the Best Animation award at the 29th Golden Rooster Awards, thus emphasising the rising competency of locally produced animation films. Following the success of *Fantastic Adventure*, large-scale media conglomerates began to participate in the distribution of animation films, greatly improving the professionalisation and marketisation of domestic animated productions.

(2) IP Adaptations

In relation to film, finance attorney and scholar, John W. Cones (1992) defines intellectual property as ‘an idea, concept, outline, synopsis, treatment, short story, magazine article, novel, screenplay or other literary form that someone has a legal right to develop to the exclusion of others and which may form the basis of a motion picture’ (413). In China, intellectual property has become somewhat of a buzzword in recent years and IPs are becoming increasingly important to the Chinese film industry.

IP resources can be purchased and owned by any company, whether they be film producers or those working in collaboration with production companies. The ownership and copyrighting of intellectual properties essentially serves as a form of protection, providing a means of safeguarding ‘original works of authorship, including literary, dramatic, musical, artistic, and certain other intellectual works’ (Wasko 2008, 44). Indeed, as Janet Wasko states, ‘copyright is a fundamental base for the film industry as commodities are built and exploited from the rights to specific properties’ (44).

IP films refers to films that utilise the intellectual property of other authors/cultural producers. This may include characters and/or story elements that audiences might already be familiar with through other forms of media and popular culture, such as novels, comics, video games, television programmes, web series and so on. Typically, well-known IPs have a large pre-established fan base.

IP resources have become very important assets in Chinese film production, and in 2015, China saw a wave of films utilising pre-established and popular IPs. Indeed, filmmakers

have adapted transmedia IP resources with great success. Films such as *Ever Since We Love* (LI Yu, 2015), *Silent Separation* (YANG Wenjun and HUANG Bin, 2015), *Tiny Times 4.0* (GUO Jingming, 2015), *The Left Ear* (SU Youpeng, 2015), *Running Man* (HU Jia and CEN Junyi, 2015), *Where are we going? Dad Season 1, and 2* (CAI Dikui and Lin Yan, 2014, 2015), *Emperor's Holidays* (WANG Yuelun, 2015), *A Hero or Not* (DONG Chengpeng, 2015); *Surprise* (Jiaoshou Yi Xiaoxing, 2015), *Goodbye Mr. Loser* (YAN Fei and PENG Damo, 2015), *Devil and Angel* (DENG Chao and YU Baimei, 2015), *Go away Mr. tumour* (HAN Ting, 2015) and *The Witness* (AN Shangxun, 2015), were all adapted from pre-established source, whether that be online novels, TV programmes, comic books and even operas or plays.

This practice is far from unique to China, however, and Hollywood has a long history of producing films based on pre-existing IPs. Indeed, according to Wasko (2008), around 50 percent of Hollywood films are adaptations of some form (44).

Wasko also states that the repetition of certain stories and characters may transcend popular suppositions that cinema's lack of originality is the result of profit-hungry producers unwilling to take risks. Indeed, certain character tropes and narratives may be of cultural significance and have a long history within the myths and folktales of a given nation (44). Thus, the benefits of familiar story tropes and characters exceeds the purely financial and can provide a modern link to a nation's cultural heritage.

However, it is also not uncommon for filmmakers to adapt successful IPs from other cultures and reconstitute and recontextualise them so that they appeal to a new audience. Indeed, this has been a popular practice in Hollywood, in which locally-popular films and television series are reworked and repackaged to better suit American tastes and dispositions.

Hollywood is, of course, not alone in utilising this practice and China has increasingly looked towards Hollywood for sources of cinematic inspiration. Hollywood is standard-bearer of classical cinematic storytelling and provides Chinese filmmakers a framework for improving their ability to tell engaging stories. Indeed, Wanda Group's chairman Wang Jianlin stated in 2016 that Chinese filmmakers needed to improve their ability to tell stories, claiming 'the Chinese film industry is like a student, and Hollywood is our teacher' (Kay J. , 2016). Consequently, there has been a marked increase in Chinese

domestic films adapted from Hollywood movies, including *My Best Friend's Wedding* (P.J. Hogan, U.S., 1997), which was adapted into *My Best Friend's Wedding* (CHEN Feihong, 2016), *Bride Wars* (Gary Winick, U.S., 2009), which became *Bride Wars* (Tony Chan 2015), *What Women Want* (CHEN Daming, 2011) was an adaptation of *What Women Want* (Nancy Meyers, U.S., 2000), *Only You* (Norman Jewison, U.S., 1994) was remade into *Only You* (ZHANG Hao, 2015) and *12 Citizens* (XU Ang, 2015) was a domestic retelling of the Hollywood classic, *12 Angry Men* (Sidney Lumet, U.S., 1957). However, despite the fact that these films are adaptations of Hollywood fare, the end product is very much representative of local cultures.

Other possible explanations exist, however, as to why remakes and adaptations are so popular around the world, not least in China. Film is a commodity in a capital intensive and unpredictable industry. Utilising remakes and familiar IPs provide a means of minimising risk. This is the case for film industries all over the globe, in which familiarity and recognisable tropes or characters provide a means of reducing uncertainty in a volatile and highly competitive industry.

(3) Internet Big Films

Internet big films are an amalgamation of film industry and online practices. Li Yansong, the President of iQiyi, the largest online video platform in China, stated that Internet big films are made up of four key characteristics: Firstly, the budget of said films typically range from five hundred thousand RMB to three to four million RMB; secondly, the films are usually over 60 minutes in length, distinguishing themselves from the online micro movie; thirdly, the production process is invariably short, and fourthly, Internet technologies are used in production and distribution of the films.

The origins of the Internet big film can be traced back to 2013. Like the micro movie, the Internet big film developed alongside the rise of new online multimedia platforms. The micro movie's popularity established online video platforms as a legitimate site of film exhibition and the Internet big film blossomed from these conditions.

The concept behind the Internet big film is one of differentiation and demarcation. The Internet big film strives to distance itself from the theatrical cinema exhibited throughout China. An Internet big film strives to be more contemporary and

spontaneous. Such films are normally produced between one and three months, from the project's initial idea to its online release. This, naturally, is very different from mainstream cinema, which invariably takes much longer to produce and is required to wait to be given a place in the release schedule. Furthermore, the Internet big film can recoup its costs relatively quickly. If the film proves popular and has a high click rate, then the revenue produced can be of a higher rate than that received from a theatrical chain. Take the film *Daoshi Chushan* (ZHANG Tao, 2015) as the example; the film only cost 280,000 RMB and the production process only took about one month: a week for the script, ten days for preparation, ten days for shooting, fifteen days for post-production. However, this film's final box office revenue amounted to RMB 24 million (USD 3.75 million). The rate of repayment is 1:40.

XIA Xueluan, a professor of sociology at Peking University, points out that 'the quick return of small investment is in line with the basic laws of the economy, and it also provides conditions for the continued growth of the Internet big film' (cited in Yang, 2015).

Although the number of Chinese cinema screens is rapidly increasing year after year, there are still a large number of films that don't receive proper theatrical releases. Even though a film might get the appropriate permissions for release and acquire a position within the screening schedule of the cinemas, there is still no guarantee of exhibition because of the theatrical quotas of a given cinema chain. Some filmmakers have thus experienced 'theatre day trips', in which their films are exhibited for just one day. Given this unfavourable situation, the Internet has opened another avenue for young filmmakers to exhibit their work.

While the box office revenue of the Chinese film industry continues to grow, so does the revenue of the Internet films. GUO Tingting, the Chairman of the Beijing Times Films Company Ltd., has stated that because the entry threshold of the Internet film is very low, young cinephiles and budding filmmakers are able to engage in the film industry in a much more direct way, bringing fresh blood and bold innovations to the industry.

The online video format has now significantly penetrated the film market. Indeed, statistics from China's largest online video platform, iQiyi reveal that in 2014 there were a total of 400 Internet films uploaded onto their video site, a figure that exceeds the total

number of films to receive cinematic release. In that same year, the annual revenue of Internet films reached RMB 50 million (USD 7.8 million) (Yang, 2015).

2.4.2 International Co-operation

In 1997, James Cameron's *Titanic* became something of a cultural phenomenon in China. The film grossed an unprecedented USD 43 million, making it, at the time, China's highest grossing film. The film was a sensation, aided by the fact that it was one of the first American movies to be heavily marketed in China, and was even endorsed by China's then President, JIANG Zemin. For Jiang, *Titanic* was not so much a wonderful example of cinematic art, but as Alan Riding (1998) states, 'a great example of venture capitalism at work'. At the National People's Congress, Jiang encouraged his fellow Party members to go and see the film, stating, 'Let us not assume that we can't learn from capitalism' (Hayoun, 2012). *Titanic* opened the eyes of both national and international producers to the potential profitability of cinema in China and it would not be long until China had its own international commercial success with *Crouching Tiger, Hidden Dragon* (Ang Lee, 2000), a multinational co-production involving participants from China, Hong Kong, Taiwan and the U.S.

With the potential profitability of the Chinese film market becoming increasingly apparent to international producers, China's 2001 World Trade Organisation (WTO) negotiations obliged that China incrementally remove its film market restrictions. In response, China would set import caps on imported films. Only 60 films could be imported into the Chinese market each year. Of these 60 films, only 20 would be certified as revenue sharing imported films, which meant that their copyright holders (typically the Hollywood studios) would be entitled to between 13 and 17 percent of the gross box office. The exact figure would then be determined by the films' sole license importer, the CFGC.³⁹

After roughly a decade of renegotiations, in 2012, then-Vice President Xi Jinping, on a

³⁹ The remaining 40 films could be imported, again by either the CFGC, its sister company Huaxia Film Distribution, or via the dedicated China Movie Channel of state-run broadcaster China Central Television, on a "flat fee" basis.

visit to Los Angeles, announced that the U.S. – China Film Deal would open China’s doors to an additional 14 revenue-sharing films, which were obliged to exploit advanced cinematic technologies such as 3D and IMAX. The U.S. – China Film Deal would also roughly double the gross box office share of the copyright holders.

For many countries, the strong competition from Hollywood in acquiring those often-elusive 34 revenue-sharing import slots that constituted the import quota system, has seen international producers favour co-productions as a means of entering the Chinese film market.⁴⁰ Under Chinese regulations governing film productions, foreign entities are prohibited from independently producing films in China. As a result, foreign filmmakers have three principle routes of access into the Chinese film market:

(1) Co-productions: Also referred to as joint-productions, co-productions see Chinese and foreign production companies jointly invest in and produce a film. Under this system, all entities share the copyright of the films as well as the potential profits or losses arising from the project. Chinese co-productions impose a number of prerequisites and regulations, one being that at least one-third of the main cast is Chinese. The main benefit of co-productions for foreign producers is that co-produced films are regarded as domestic films and therefore not subject to the import quota system.

(2) Assisted productions: Also entitled entrusted production, assisted productions are those in which a foreign party provides funding for the project and the Chinese party provides production support, whether in the form of equipment, facilities, and labour for a film shot in China. The copyright for assisted productions are owned by the foreign filmmakers and the film cannot be released in China unless it is imported by an authorised import agent, meaning that it will be subject to the import quota system. An example of this form of assisted production can be found in *Transformers: Age of Extinction* (Michael Bay, 2014), which utilised this collaborative approach.

(3) Commissioned productions: Commissioned productions are those in which the foreign party commissions a Chinese company to produce a film in China. Such

⁴⁰ More detailed information such as box-office sharing for import film have been discussed in the Exhibition chapter.

commissioned productions would also be subject to the import quota if released in China.

To evade the restrictions of China's import quotas, many international producers have resorted to co-productions with Chinese partners. Indeed, many countries have formalised co-production treaties with China — which aren't subject to the quota, although, significantly, the United States is not one of such countries. For the most part, these international treaties benefit international collaboration. However, these treaties have also been perceived as a means of protecting the state's political agenda, as all agreed co-operation is regulated and approved by the government.

While Hong Kong and Taiwan have historically been major co-producing partners with mainland China, the Chinese government has signed treaties with fifteen other nations, including Canada, Australia, Italy, France, New Zealand, Singapore, Belgium, The United Kingdom, Korea, India, Spain, Malta, The Netherlands, Estonia, and Denmark. The specific details can be seen in the table below (Figure 16):

The Film Cooperation Treaty between Thirteen Nations and China			
SEQUENCE	NATION	TIME	
1	Canada	23 February 1987	
2	Australia	27 August 2007	
3	Italy	10 April 2008	
4	France	29 April 2010	
5	New Zealand	7 July 2010	
6	Singapore	23 July 2010	
7	Belgium	17 April 2012	
8	The United Kingdom	23 April 2014	
9	Korea	3 July 2014	
10	India	18 September 2014	
11	Spain	25 September 2014	
12	Malta	27 July 2015	
13	The Netherlands	26 October 2015	
14	Estonia	29 April 2016	
15	Denmark	3 May 2017	

Figure 16 The form about the national treaty signed date between 15 nations and China

2.4.2.1 The Leading Players in Chinese Co-Production

All co-productions are subject to the approval of the China Film Co-production Corporation (CFCC), a state-owned company controlled by the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT). Founded in 1979, the CFCC is the main facilitator of co-productions between mainland-Chinese film producers and their foreign collaborators. In order to maximise productivity and profitability, the CFCC deemed that co-productions be comprised of at least one Chinese production company. This meant that the film could be classified as a domestic production and thus bypass the import quota system. As further market-oriented reforms were passed, foreign studios were allocated an up to 30 percent ratio of Chinese box office revenue. Co-productions have thus provided the perfect opportunity for foreign film companies to circumnavigate China's trade barriers on foreign films.

According to the CFCC's official website, China offer three key unique selling points used to attract Sino-foreign co-productions. Firstly, China's divergent geography offers an abundance of cinematic backdrops and filming locations, including river basins, deserts, grasslands and mountains. China also boasts a plentiful supply of low-cost materials and human/labour resources. In addition, Chinese history spans over 5000 years, which offers producers a vast variety of engaging local themes and subject matter.

Secondly, co-productions grant foreign companies access to the Chinese market. The Chinese market witnessed a 26 percent growth in box office revenue between 2006 and 2007 and the growing appetite of Chinese spectators presents opportunities for a potentially lucrative partnerships.

Thirdly, Chinese cultural content is attracting increased international interest. For foreign companies seeking to capitalise on this demand, co-productions offer the most direct means of accessing Chinese culture and its rich history and traditions.⁴¹

⁴¹ *China Hollywood Society*, 'About Co-productions', <http://www.chinahollywood.org/about-co-productions>

2.4.2.2 Co-operation Between the U.S. and China

Given the historical significance of Sino-American relations in shaping developments within the Chinese film industry, and given that future developments between the two are inevitable, due to the market potential of the Chinese film market, this section will analyse the dynamic developments within China's relationship with Hollywood.

The 1990s witnessed the first cinematic exchanges between China and the U.S in decades. In 1994, the first American import, *The Fugitive* (Andrew Davis, 1993), began a primary exchange between the two film industries. The film proved to be a huge success, and Chinese audiences were largely captivated by the film's blistering pace and dynamic effects (Zhang Y. , 2017). In the ensuing years, the number of U.S. imported films gradually increased, and Hollywood began to exert an increasing influence in China. Between 1994 to 2012, co-operation between China and the U.S. reached an intimate, if at times uneven, level.

Initially, co-operation between China and Hollywood was not the result of state participation, but rather through Chinese filmmakers and industry personnel, who travelled to Hollywood and found work within the industry. From a Chinese audience perspective, Bruce Lee (1940-1973) made the first significant breakthrough in Hollywood and established himself as a bona fide movie star. Thanks to Bruce Lee, the world would be introduced to Chinese kung fu and, because of him, the 'sick man of East Asia' stereotype would be stifled significantly. Furthermore, owing to the success of Bruce Lee, other Chinese martial arts stars would get a chance to shine in Hollywood, and actors such as Jackie Chan, Jet Li, and Chow Yun Fat would all, to varying degrees, go on to become household names the world over.

However, kung fu seemed to be the only vehicle to success for Chinese actors in Hollywood, and while one cannot deny the position of Chinese martial arts within Hollywood's history, it was, however, merely a flower that blossomed as briefly as the broad-leaved epiphyllum does.

Nevertheless, actors such as Lee, Chan and Li have laid the path for future generations of Chinese performers, and actresses such as GONG Li, ZHANG Ziyi, Crystal Liu, and Lucy Alexis Liu have all since made their presence felt on the international stage. Such is the

increasing prominence of Chinese performers in world cinema that it is now not uncommon to see phrases such as 'the Eastern face' written in international reviews. However, international recognition is not just limited to actors/actresses. There are also many Chinese directors and filmmakers who have made an impact on the world stage, including Tsui Hark, *Once Upon a Time in China* film series⁴² (1991–1997), *Double Team* (1997) and *Time and Tide* (2000); John Woo, *The Killer* (1989), *Hard Boiled* (1992), *Faceoff* (1995) and *Mission Impossible II* (2000); Ang Lee, *Crouching Tiger, Hidden Dragon* (2000), *Brokeback Mountain* (2005) and *Life of Pi* (2012); CHEN Kaige, *Yellow Earth* (1984), *Farwell My Concubine* (1993) and *The Promise* (2005); ZHANG Yimou, *Raise of the Red Lantern* (1991), *Hero* (2002) and *House of Flying Daggers* (2004); and JIA Zhangke, *Still Life* (2006), *A Touch of Sin* (2013) and *Ash is Purest White* (2018).

Sino-U.S. relations continue to be complex and intricate. Cinematic co-operation between China and America is increasing and both view the other as a valuable collaborator. However, the two are yet to formalise a co-production treaty, despite China agreeing treaty partnerships with 13 other countries. By the same token, the Association of Film Commissioners International (AFCI), a U.S. based, worldwide film commission network, represents 40 countries in six continents, but does not including China.

However, the Chinese film industry has, where possible, tried to appease Hollywood given their global power and influence, and China has even gone so far as to increase the quota share from 20 to 34 because of the U.S. in 2012.⁴³ Yet, there are many who believe that Hollywood exerts too much influence within the Chinese film industry, and have called for further protection for Chinese production companies and studios. Thus, with regards to the future of Chinese American relations, it is reasonable, and indeed beneficial, for China to take slow steps in their association and collaboration with Hollywood, lest risk losing control of the domestic film market. The Chinese film market has massive commercial potential for the big names in Hollywood and co-productions have become a viable way for American producers to take a stake to this market.

XIE Pei (2012), in an article published in *The Time Weekly*, took a more optimistic stance

⁴² HUANG Feihong film series.

⁴³ The foreign studios are allowed to have 25% of the Chinese box office revenue in the quota revenue sharing way.

on the issue of Sino-U.S. relations. He pointed out that Chinese directors FENG Xiaogang and WANG Xiaoshuai have both stated that with regards to Chinese American co-productions, the Chinese film industry needs to experience these ‘labour pains’ in order to be able to survive in unrestricted market conditions. Feng expressed his opinions on his micro-blog (cited in Xie, 2012), stating that Hollywood’s arrival in China would bring three important benefits: firstly, the creative space and artistic independence of Chinese filmmakers would grow; secondly, the government will have to address the issue of piracy, currently rife in China; and thirdly, Chinese audiences will have greater access to blockbusters. WANG Xiaoshuai, director of *Beijing Bicycle* (2001), a film that won the Silver Bear at the 2001 Berlin International Film Festival, asserts that if the Chinese film industry was to examine the constraints of the current system, it would be unable to compete in an open market. Wang believes that only when China expands artistic freedom and improves the production quality of domestic films, will the Chinese film industry be competitive in the global market.

The most successful co-production between 2010 and 2016 was *Kung Fu Panda 3* (Jennifer Yuh Nelson and Alessandro Carloni, 2016), which grossed USD 519 million worldwide. But politically safe animated features starring China's national animal, coupled with Hollywood actors and a Western script, are as rare as the pandas themselves.

However, China’s engagement in co-productions with other countries, including the U.S., does not always guarantee financial success. Take, for example, *The Flowers of War* (ZHANG Yimou, 2012) and *The Great Wall* (ZHANG Yimou, 2016). *The Flowers of War* was a USD 100 million epic about the Nanking Massacre of 1937. The film starred Christian Bale, whose character, John Miller is tasked with saving a group of innocent Chinese citizens from marauding Japanese soldiers. The film flopped outside of China, taking only USD 311,000 at the U.S. box office. Likewise, *The Great Wall* was a big budget co-production, involving Universal Pictures, Wanda's Legendary Pictures and the upstart Le Vision Pictures.⁴⁴ The film cost roughly USD 150 million, making it the most expensive

⁴⁴ Le Vision is the film division of LeEco, a Chinese tech venture that began as a video-streaming service — like Netflix but years earlier than the U.S. firm — and now has ambitions to make everything from smartphones to driverless electric cars. In September, LeEco announced it had hired Adam Goodman, the former head of Paramount Pictures, to direct its Hollywood operations. But LeEco's expansion — in

feature film made in China at the time. The film's financing was largely provided by the Chinese sources with the aim of achieving global box office success. The film even featured two big Hollywood stars in Matt Damon and Willem Dafoe. However, the film was widely perceived to have been a commercial failure, making only USD 334.9 million globally.

2.5 Growing Pains within Chinese Film Production

2.5.1 Existing issues in Domestic Film Production

In pursuit of high cinematic output, the quality of Chinese films has been somewhat compromised and many filmmakers prioritise economic imperatives over artistic ones. Actors or actresses have also begun either directing the films they feature in, as a means of maximising their share of the profits, or even taking more than one role during the production of the film. In addition, in order to gain sponsorship deals with commercial companies, advertising is increasingly embedded into Chinese films. For some publicly traded production/distribution companies, some films are made solely to provide high levels of exposure to financial investors. Given this trend, issues within the production stage have become increasingly apparent.

2.5.1.1 Negative Feedback From Overseas

According to HUANG Huilin (2012), president of the Institute for International Communication of Chinese Culture at Beijing Normal University, despite China becoming the second-largest economy of the world, the Chinese film industry only achieved a 4 percent share in the world cultural market (cited in Yu F. , 2012). With regards to China's minimal global cultural impact, Huang states that '[i]f Chinese film wants to solve this dilemma, Chinese filmmakers need to both absorb the nutrients from Chinese culture and strengthen regional cooperation of packaging, promotion, and marketing' (Yu F., 2012).

so many directions at once — appears to have burned out fast. After announcing in July that it would buy Vizio, the No. 2 TV maker in the U.S., for USD 2 billion, the Chinese tech firm has suffered a cash crunch (Beech, 2017).

On 22 February, 2012, a joint survey was published by the Academy for International Communication of Chinese Culture (AICCC), *Modern Communication*⁴⁵, Huaxia Film Distribution Company, Ltd, and Ecole Francaise du Cinema (Peking). The document, entitled *The International Influence of Chinese Film and Global Research Data Release 2011*, focuses on the international influence of Chinese films on foreign audiences. On 26 February, the PRC-published newspaper *Guangming Daily* reported that, in this survey, 1,450 questionnaires were sent out to countries that included the U.S., Britain, France, Germany, Canada, Australia, India, Japan, and South Korea, and 1,308 valid responses were received. The survey focused on mainstream-film audiences around the age of 35. Huang, who was in charge of the project, stated that the survey revealed that the limited international influence of Chinese film was largely due to a poor understanding of China's domestic film industry and Chinese culture more broadly. More than one-third of the respondents claimed that they did not understand Chinese films, while half maintained to have only a limited understanding. Only a fifth of those surveyed – mainly those from Japan, Korea, and Germany – claimed to pay any attention to Chinese film releases. Significantly, the lowest amount attention paid to Chinese film was by native Hindi and English speakers. The data reveals, therefore, that Chinese cinema's cultural influence is sorely limited (cited in Li & Wang, 2012).

Guangming Daily also revealed that the survey suggested that foreign audiences believed that Chinese films must enhance within the following key areas: publicity (according to 63.9% of the respondents), and storytelling (34.9%). This shows that the Chinese film industry is currently not doing enough to market their films internationally. In addition, because of cultural differences, overseas audiences believe that Chinese films do not always translate to an international audience and more could be done to engage with more universal themes and subject matter, and narratives whose relevance exceeds Chinese audiences. The main channels through which overseas spectators learn about Chinese culture is via the Internet (46.7%), followed by visiting China (38.3%) and having Chinese friends (37.4%). Additionally, only 25.9% of respondents believe the Chinese film industry is currently strong enough to propel Chinese cultural output beyond China (Li & Wang, 2012).

⁴⁵ The Journal of Communication University of China.

2.4.1.2 Overpaid Actors and Actresses

Motion picture production is labour-intensive, meaning the largest part of a film's budget is typically spent on labour. The cost of key talents, notably actors/actress, makes up a significant part of the budget for a typical Hollywood film, for example. Above-the-line talent can often occupy 50 percent of a production budget and the cost of key labour has been identified as one of the key reasons why the costs of Hollywood films have skyrocketed (Mcdonald & Wasko, 2008, 51). However, in China, the cost of the talent already occupies around 80 percent of a film's total budget (Zhang X. , 2016). Producers in China pay more attention to the casting because of the power of stars in China, and stars ensure high box office returns.

Popular directors and actors have become key resources within the Chinese film industry. Being such a creative and knowledge-intensive industry, filmmaking relies heavily on the producers, directors and actors. While the box office revenue in China has rocketed in the past few years, good script writers, directors and actors have remained an essential, though relatively scarce, resource. This has resulted in rising costs for obtaining the service of these top tier talents. With blockbusters continuing to take the lion's share of the Chinese box office, and famous actors/directors continuing to be key box office drivers, the competition for talent remains high.

There is a huge discrepancy between the cost of first-line actors/actresses and newcomers in China. Moreover, many of first-line Chinese actors/actresses have used their large salaries to exhibit power within the industry. They like to compete with each other to acquire greater salaries as a means of demonstrating their influence within the industry. In addition, producers typically place great emphasis in assembling the cast because a popular cast has become one of the most important factors in attracting Chinese cinema-goers.

Furthermore, the rising phenomenon of the Chinese star has also been accelerated by agents. In the past, agents were employed by production companies, which set budgets and limitations with regards to casting costs. However, many stars now operate independently of the studios and have representation from autonomous agencies seeking the best deals for their clients. Hence, cast costs now occupy a significant portion

of the production budget, which ultimately leads to more pressures for producers, increased risks for production studios, and a continuously raising threshold for new producers/studios wishing to enter the production stage.

2.4.1.3 The Rising Cost of Co-operation

In 2015, LU Chuan produced and directed the film, *Chronicles of the Ghostly Tribe* (2015). The post-production team consisted of seventeen members, who worked on the film's CGI and visual effects. Lu intended to employ the same team for his next film project, *We are Born in China* (2016). However, Lu was shocked to learn that these seventeen young film professionals had splintered off to form six different companies after working on *Chronicles of the Ghostly Tribe* (Li & Zhang, 2016). Likewise, XU Zheng, director of the film, *Lost in Thailand* (2012), raised a similar issue. *Lost in Thailand* not only generated a high box office return but it brought about a certain amount of success and fame to the production team. The cast, photographer, sound recordist, script writer, even his assistant, almost everybody now had their own film company after gaining recognition within the industry. Furthermore, many of these people had abandoned their technical roles to work chiefly on administrating their firms. Xu pointed out that, when people face the prospect of considerably higher salaries, as well as greater esteem within the industry, people will become increasingly acquisitive and less inclined to work with former colleagues unless the money is right (Peoples Daily & Hua, 2017). As a result, relationships between those working in the film industry have changed. Where once they were collaborators, now they are competitors. The upshots of this trend is that the industry becomes increasingly fragmented and avaricious, and the costs of communication and cooperation rise.

2.4.1.4 Low Quality vs. High Quantity: The Pressures of Commercial Profitmaking

In 2015, the Chinese film industry produced a staggering 686 feature films (China Film Association, 2016, 1). However, in the current climate, it is rare that a film is made for any other reason than the pursuit of profits. Consequently, the quality of Chinese cinema is, at the very best, inconsistent and films engaging with artistic pursuits are relatively rare. Given the influence of commercial interests in the Chinese film industry, Chinese

filmmakers typically engage in a single-minded pursuit of the largest commercial profits from both the Chinese and international film market. Many filmmakers have positioned economic interests as their first priority and, increasingly, actors or actresses are pursuing directing in order to maximise their share of profits by taking on multiple roles within the production of the film. Examples of this can be seen in *Go Lala Go!* (XU Jingle, 2010), *Lost in Thailand* (2012) and *Lost in Hong Kong* (XU Zheng, 2015).

Additionally, product placement is increasingly permeating Chinese cinema as producers strive to extract even greater profits. Furthermore, some films, in such key stages as production, distribution and exhibition, attempt to gain high exposure in order to attract investors, thus becoming bargaining counters on the stock market. Unfortunately, the quality of Chinese film is often compromised by commercial intent. Undoubtedly, commercial profits stimulate development within the Chinese film industry. However, this intense pursuit of profits has had a negative impact on the development of quality cinema, which ultimately damages the reputation of Chinese film industry.

2.5.2 Existing Issues within Chinese Co-Productions

With the quantity of co-productions continuously increasing in China, the ideal situation would see overseas production studios reap the benefits of revenue-sharing within the Chinese domestic market, while granting Chinese filmmakers the opportunity to learn how to be more effective, universal storytellers and allowing them to benefit from the distribution channels of their co-producing partners. However, this has not proven to be the case for the vast majority of Chinese co-productions.

During the CCTV Movie Channel Seminar of August 2012, ZHANG Pimin, the Bureau deputy director of the State Administration of Radio Film and Television, pointed out that many co-produced films had not been released overseas but had purely served as a way for foreign producers to gain entry into the Chinese film market. This indicates that the co-operation between China and her co-producing partners has been largely superficial and exploitative. This situation is made more egregious by the fact that co-produced films occupy the same status as domestic films within screen scheduling. Zhang has thus stated that, 'this situation is very serious' (in Chinese, cited in Huang J., 2012).

The exploitative nature of co-productions has serious ramifications for the profitability

of Chinese films within their domestic market. As above discuss, a foreign film entering the Chinese market via the quota system is eligible to only 13% revenue of the domestic box office. However, for co-productions, because these film are granted the same status as domestic films, the quota ratio of revenue for the overseas companies could reach up to 43% box office revenue.

Furthermore, there is a tendency for co-produced films, especially Sino-U.S. co-productions, to include narratives with little to no relevancy to China. These films merely contain Chinese elements, such as Chinese actors/actresses, or scenes shot in China, but do not show true Chinese cultural characteristics; rather, it is more about meeting the requirements of Chinese Co-production Policy. Ji Erwei argued that because of these current trends, Chinese filmmakers have become increasingly cynical and have begun questioning the current system, demanding the implementation of more equitable measures (cited in Yang T. , 2012). One may argue that the government should apply greater restrictions to foreign film companies, so that they cannot easily exploit the current co-production system, which is, at present, proving detrimental to the Chinese film industry.

For co-produced films, the inclusion of Chinese elements is a mandatory requirement. Therefore, greater supervision into the implementation of these Chinese elements is needed. However, it has often proved difficult for producers to incorporate Chinese elements that are recognisable to both Chinese and U.S. audiences.

YANG Tiandong (2012) published an article in *Cinema Journal* (special issue, online) entitled 'Worrying about Sino-US Film Co-production', which referenced XU Yuan, an influential film researcher in China. Xu was reported to have said that there are two kinds of co-production schemes for Chinese and American filmmakers: one sees Chinese capital supporting the production of Hollywood movies – this kind of nominal co-production would meet China's official co-production policy, and, as such, would include some rudimentary Chinese story elements and performers.

The other form of co-production cited by Xu saw 'Chinese films' being produced by Hollywood personnel, using Hollywood crews, skills and marketing tools. These films would also utilise Hollywood's special effects technologies as well as their ability of the produce derivative products from popular film.

From a cultural-protection perspective, the first co-production model does not meet the expectations of Chinese filmmakers, as such collaborates merely aim to circumnavigate China's film import quotas. Indeed, as Xu states, '[s]ome say this is very serious, a kind of trade dumping' (in Chinese, cited in Yang T., 2012).

Therefore, the Chinese film industry is faced with a predicament. If the industry wants to achieve more stable international development, the current system of seemingly superficial co-operation with the other nations is insufficient. After all, such co-operation has not fostered development within Chinese production technology or management strategies, but has instead highlighted the sole focus of China's co-production partners on the economic potential of the Chinese film market. If future co-operation continues in this vein, sustainable development will not be possible, nor will Chinese cinema be able to increase its international cultural influence.

2.6 Countermeasures for Addressing the Current Issues within Chinese Film Production

In order to sustain and develop Chinese film production, the government must provide a free and liberal environment for filmmakers. The issue of homogenisation within China's cinematic output is, in part, the result of heavy censorship, which ultimately limits creativity and the willingness of filmmakers to diversify and take risks. While censorship safeguards younger audiences from adult content, a more elegant solution would be the introduction of a film classification system. Films should be categorised for different audiences. However, under current Chinese censorship laws, all films must be suitable for all audiences, regardless of age or disposition, which limits what can be made both thematically and stylistically, and ultimately homogenises Chinese cinema.⁴⁶ Although the Chinese Film Industry Promotion Law has potentially signalled that China may introduce a film classification system in the future, its actual legislation and implementation will take some time.

It could prove useful for the Chinese film industry to follow the example of South Korea.

⁴⁶ The current Chinese censorship rules issued in December 2001.

The recent rise in the international reputation of Korean cinema is the results of the increasing openness of the Korean film industry. In contrast with China, in which the government continues to exert authority over the film industry and requires that producers follow strict guidelines regarding content, style and form, the Korean government merely monitors film production and endeavours not to influence film content. The film industry in Korea relies on self-regulation and the market. The creative process is thus under the jurisdiction of the filmmakers and their artistic integrity is respected.

The South Korean film industry's regulatory body, the Korean Film Council, KOFIC, is a non-official organisation that is funded by taxes received from films exhibited domestically. KOFIC is responsible for making policies and promoting Korean films internationally. The KOFIC also funds independent filmmaking and exhibits their works. Indeed, the independent cinemas IndiePlus, Indiespace and Movie College were established by KOFIC to support independent film exhibition.

The classification of films in Korea is not conducted and regulated by the government but is instead established and monitored by a non-official organisation, the Classification Committee. There are currently five categories implemented in the Korean classification system. These include the All category, indicating that the film is suitable for any audience, regardless of age, the 12 and 15 categories, which states that the content is only suitable for audiences aged 12 or 15 or older, R, which limits the audience to those aged 18 or over and Restricted, which prohibits those aged under 19 from seeing the film and also limits where the film can be screened. Not only does the classification protect vulnerable audiences from watching inappropriate films, but allows films to engage with sensitive and controversial subject matter, which helps diversify Korea's cinematic output (Zhang, Tan, & Liu, 2015, 200-201).

However, in China the SAPPRFT is the sole governing body of film related policies and regulation. Although a system of support been introduced by the SAPPRFT to assist independent filmmakers, the content of their films is still controlled and guided by SAPPRFT. This represents a clear conflict of interests, which ultimately results in an absence of genuine support to independent Chinese filmmakers, and lack of diversity within Chinese cinema. It may, therefore, prove fruitful for the Chinese film industry to

follow the Korean example and embrace deregulation on film content.

Chinese filmmakers should also proactively take advantage of China's rich history and cultural heritage as a source of inspiration for filmic narratives. However, such narratives should also embrace western sensibilities and western narrative styles to reduce cultural disconnect. Indeed, Chinese filmmakers can learn from some successful Hollywood examples, such as the *Kung* way that will best appeal to western audiences. Additionally, more emphasis needs to be placed on low budget films. It is misnomer that *fu Panda* franchise (2008-2016) or *Mulan* (Barry Cook and Tony Bancroft, 1998), films that have embraced Chinese culture while packaging it in a only big budget films can be successful in both the overseas and domestic markets. A greater variety of Chinese films, films catering to diverse audience groups, will naturally provide greater appeal for audience at home or abroad. Indeed, the audience figures for big budget Chinese films has been steadily decreasing in recent years as the Chinese blockbusters become increasingly homogenised, largely relying on the martial arts genre. Consequently, Chinese audiences have been seeking something new and are increasingly turning to medium and lower budget films that offer audiences something different, and significantly, something relatable and culturally relevant (Yu D. , 2008. September 25).

2.7 Chapter Conclusion

This chapter has introduced readers to the workings of the production sector of the Chinese film industry, with specific focus being given to the years 2010 to 2016. Within the chapter, the author has engaged with the operational procedures and practices within Chinese film production and introduced the main industry participants. The chapter has also engaged with the different regulations and practices regarding domestic productions and co-production, and has highlighted some of the main issues currently impacting the Chinese film production sector.

By way of summary, the Chinese government oversees film production in China and has been heavily involvement with the industry's growth between 2010 to 2016. The government has been instrumental in the marketisation of Chinese film production, introducing practices such as ownership diversification, and the privatisation of SOEs.

These practices in turn led to the internationalisation of the Chinese film production sector and co-production treaties have been established with other film producing nations. This led to further regulations regarding foreign investment and participation in the production stage, and more rigorous censorship. The government would also oversee the technological advancement of the Chinese film industry and has openly embraced a number of high-tech filmmaking practices (3D, 4D, VR, AR) as a result of a sustained audience interest. The government has also facilitated the introduction of Internet companies within the production stage.

During this period, a key attribute of Chinese production has been growth. Chinese cinema has diversified to a significant degree, although further development in this area would prove beneficial to the industry in the future. Chinese production companies have experimented with various hybrid forms of content-making, such as the self-produced online drama series, the micro movie, light films, and hybrid platform, reality-show films.

Public sector investment in the film business continues to grow, including an increasing amount of foreign investment. As a result, the market for film and media production has witnessed continuous growth, and between 2010 and 2016 the market share of production studios expanded, especially those that embraced vertical and integration. Additionally, given film production's links to tourism – thanks to the allure of the silver screen and the larger-than-life celebrities associated with it – studios have been able to diversify. Production facilities are therefore able to boost the economy of certain cities/regions more broadly.

However, China's production system and its operational procedures, are still somewhat undeveloped. The technical quality of Chinese productions remain inconsistent, often lagging behind global industry standards, despite the increasing number of films produced and the fact the box office revenue continues to rise. This, in part, can be attributed to the fact that the labour system in Chinese film production is relatively weak. Skilled labours is in short supply, and the country is in need of better training facilities that provide in-depth technical training. Production studios continue to hire inadequately trained, amateur workers, especially in the live broadcasting, as there currently exists a dearth of appropriately trained specialists in China, and these professionals cannot support China's large production volume. While unskilled labour

remains relatively high, skilled personnel with expertise in lighting, make-up and audio-recording, for example, are all in great demand.

Copyright protection continues to be an issue within the contemporary Chinese film industry, which is further exacerbated by the rising prominence of intellectual properties.

Although, as previously stated, Chinese cinema has diversified to a significant extent, the domestic film market would benefit from further diversification. That is to say, a greater of variety of films catering toward more niche and diverse audiences. The years 2010 to 2016 saw a clear preference for big-budget mass entertainment as producers increasingly prioritise profitmaking over cinematic creativity. As a result, China is, for the most part, lacking alternative forms of cinema, such as socially committed cinema or arthouse cinema.

Ultimately, the market concentration of the production studios needs to increase, which will allow studios to mature and develop sustainably. Currently, China is characterised by a vast number of production companies with limited stability, and competition between them remains fierce. In the long term, market concentration will see China's larger media conglomerates merge and acquire these smaller companies, creating synergy.

Reviewing the trends within the marketisation of the Chinese film industry between 2010 and 2016, it is apparent that privately owned film enterprises have acquired significant stakes within China's film production sector. This, in part, has been the result of investment by large conglomerates, such as the Wanda Group, Alibaba or Tencent. However, while the market currently remains relatively competitive, it is expected that the larger companies will engage in further horizontal and vertical integration in the near future. This will ultimately result in fewer but larger film production companies operating in China. These larger producers will, however, be more financially secure and will consequently have the capacity to attract international stars and explore more innovative film production methods.

From the perspectives of the internationalisation of the Chinese film industry, co-productions offer a valuable way for overseas film companies to enter the Chinese film market because co-production are classed as domestic films in China and thus circumnavigate the import quota system. This method will likely be employed by foreign

producers for the foreseeable future as China continues to form co-production treaties with international partners.

Finally, owing to the fact that Chinese audiences have largely embraced the latest film production and exhibition technologies such as 3D, for example, China has witnessed dynamic growth within the development of film technologies and a number of Chinese enterprises, both private and state-owned, have developed proprietary systems to rival established international tech such as IMAX. Production technologies have been regarded as a potential area of growth, which has only been further accentuated by the increasing role of the Internet in both film production and exhibition, and the increasing involvement of Internet companies in the media industries.

3. Distribution

3.1 Main Findings

- *As with Chinese film production, between 2010 and 2016, Chinese film distribution would be under the jurisdiction of the state, who would oversee all aspects of the distribution process and supervise all new developments and reforms. State owned enterprises would continue to hold a virtual monopoly within Chinese film distribution during the period under observation, despite the increasing amounts of foreign investment and the increasing activity of private enterprises.*
- *Chinese film distribution experienced major growth between 2010 and 2016. This is particularly evident in the number of private enterprises now participating in the film distribution sector.*
- *To a significant degree, China's current distribution system remains in a relatively rudimentary state, and many consider distribution to be the weakest link in the industry chain. There are a number of reasons for this: Firstly, the contemporary Chinese film industry is very profit oriented, often at the expense of alternative cinematic pursuits, whether artistic, social or otherwise. Consequently, major theatre chains are reluctant to accept films not made by prominent industry personnel or those deemed to have little chance of turning a profit. This means that more niche and low-budget films struggle to gain cinematic exhibition, which ultimately hampers the diversification of Chinese cinema.*
- *Additionally, while new, online distribution practices offer new opportunities for alternative and non-mainstream filmmakers to get their films exhibited, and indeed, China's filmic output has diversified significantly since 2010 thanks to these new and innovative distribution methods, there is still room for improvement. Current online distribution models do not do enough to support artistic experimentation, and more could be done to create a sustainable distribution model conducive to all types of cinema.*
- *Furthermore, the distribution sector is hindered by China's current release schedule practices. The present policies regarding the release window for Chinese*

films is unclear and changeable depending on the film. Under the existing release window system, when, and for how long, a film is exhibited is heavily dependent on personal negotiations between producers, distributors and exhibitors, often resulting in a lack of transparency and a some potentially corrupt practices. Current guidelines on the release window are inadequate, and, no clear regulations exist on the subject.

- *One noteworthy trend within Chinese film distribution during the years 2010 to 2016 has been the industry's considerable technological advancement. Online film distribution has come to prominence in China, proving incredibly popular with producers, exhibitors and audiences alike. Online film distribution offers a number of advantages over conventional modes of distribution. For one, online film distribution has led to a decline in piracy. The low-cost and expedient nature of online distribution has cultivated new viewing habits and practices within contemporary audiences. Whether watching the latest films online via streaming services or buying cinema tickets online, the convenience and reduced costs of online film distributors has proven appealing to Chinese audiences, and thus reduced their reliance on illegal copies.*
- *Online film distribution may also prove to offer a solution to the disproportionate amount of power currently possessed by the exhibition sector. Online distribution can potentially have a huge impact on exhibitors' release schedules thanks to increasing prominence of pre-paid the film tickets. In addition, because rising popularity of online modes of exhibition, the traditional release schedule will likely change, and the window between cinema exhibition and a given film's release online and/or on DVD/Blu-ray will likely shorten.*
- *Another significant trend within Chinese film distribution has been the sectors' marketisation. Many of China's major film distributors have been striving for horizontal integration in order to increase their market concentration. Indeed, it is widely assumed that in order to challenge the dominance of the two leading state-owned distributors (China Film Group and Huaxia), private firms, through mergers, alliances and acquisitions, must consolidate and expand. Consolidation enable distributors access to a wider array of distribution channels and marketing resources, therefore maximising potential profits. Consolidation also enables*

Chinese film distributor to further reduce their distribution cost and increase efficiency.

- *The Chinese film distribution sector is currently being encumbered by some notable issues. These include the homogenisation of distributed films. Here, distributors typically release films of a similar genre/style/tone to those that have already proved popular with audiences, thereby reducing risk. Other issues include schedule clashing, in which distributed films aren't able to achieve their box-office potential due to the congested nature of Chinese film exhibition. Additionally, and perhaps most egregiously, the distribution sector has faced allegations of exaggeration within their promotion tactics. It has been alleged that distributors have utilised fabricated figures and unsubstantiated public opinion to sell their films and acquire additional space in the screening schedule.*

3.2 Chapter Introduction

Film distribution is the process of bringing films to the public. While the distribution process encompasses many different roles and duties – arranging the release dates, making film prints, dubbing or subtitling etc. – fundamentally film distribution can be boiled down to two key functions; the supplying and marketing of films. First, the distributor purchases the copyright of a given film and wholesales it to one or multiple exhibitors. Following this, the distributor is tasked with promoting the film so that it reaches the largest possible audience and achieves the best possible box-office results. The distribution process is a complex one, requiring interaction with both producers and exhibitors. Efficient and effective distribution significantly influences the total revenue a film can achieve from either the box-office or alternative channels of income.

In China, however, the distribution sector is widely considered the weakest link in the industry chain. There are many reasons for this. Developments within Chinese film distribution are closely related to the country's wider economic, political, and societal developments. From a historical perspective, the planned economic system and the pedagogical nature of Chinese cinema led to a system of unified scheduling and multi-level distribution. Under this system, films would be distributed using a layer system,

which would see films shipped from the state to the major cities before later being available in more rural areas. However, it was later revealed that this system's enterprise management, regional segmentation and film distribution monopoly went against the film enterprise law of development.

In the 1970s, the Chinese film industry followed the Soviet model. The cultural administrative departments situated within the provinces, cities and the autonomous regions/counties all established distribution agencies, which functioned under the unified leadership of the China Film Group. This infrastructure granted the China Film Group total control of Chinese film distribution and provided a platform for the widespread dissemination of its ideological imbued cinema. The China Film Group would allocate specific production objectives to the major studios and require that these films be produced at a uniform price. Following this, the state would distribute prints of the film to the projection units in the provinces, cities, regions and counties.

However, under this centralised system, work was rarely incentivised and employees often took a very passive approach to their duties. Regardless of which area of the filmmaking process personnel worked in, employees only took responsible for their own departments and only completed the tasks assigned to them by their direct superiors. The passive relationship between departments thus reflected a sense of subordination towards the centralised system and ideology instilled within Chinese cinema. As a result of the rigid, planned economic system, the distribution system ultimately became a strict administrative system, fundamentally based upon the state's larger centralised administrative mechanism (Liu Y. , 2018).

On December 18, 2001, the State Administration of Radio, Film and Television (SARFT) and the Ministry of Culture jointly issued the 'Implementation of the Reform of Film Distribution and Screening System'. This reform fundamentally transformed China's film distribution network and its administrative division management model. Further changes to China's film distribution system would ensue shortly thereafter, as in 2002 the first cinema chain was introduced to China, an event now considered to be truly historic in the transformation of Chinese film distribution practices. The introduction of cinema chains proved significant as it highlighted the extent to which Chinese film distribution is closely related to film exhibition. Accordingly, the impact of exhibition

practices on film distribution will also be considered within the chapter's analysis.

This chapter seeks to first analyse the current state of affairs within Chinese film distribution, examining its characteristics and developments between the years 2010 and 2016. The chapter then endeavours to explore the operational practices within Chinese film distribution and how the sector has changed with the introduction of new industry participants and practices. Following this, the author aims to highlight some of the growing pains experienced within film distribution and some of the larger issues currently preoccupying the distribution sector. Finally, the chapter will explore potential solutions to the issues currently facing China's film distribution sector. Here, it is hoped that the thesis will offer useful and timely counsel that may potentially lead to further development and growth.

3.3 Trends within Chinese Film Distribution: 2010-2016

Due to the increasing choice offered by contemporary Chinese cinema, audiences' tastes have diversified and people are now have greater freedom to form their own preferences and predilections independent of the state and the cinema it deemed appropriate (notwithstanding the limitations that the state continues to impose on cinema in the form of censorship).

The Chinese film market began to enter a phase of increasing segmentation in and around 2010, where it experienced a divergence in audience preferences. Accordingly, targeted film distribution has proved to be an effective as well as efficient means of determining a film's audience, and has helped lay a solid foundation for a film's box-office success. In 2011, the film *Eternal Love* (ZHANG Yibai, 2011), made on a budget of less than RMB 30 million (about USD 4.7 million), went on to record box-office revenue in excess of RMB 190 million (USD 29.7 million). The success of the film has, in part, been attributed to how the film resonated with a particular audience group, that being those born in the 1980s. The film was not only a romantic comedy, an already popular genre in China, but also a sequel to the television drama released over a decade prior, *Cherish Our Love Forever* (ZHANG Yibai, 1998). Thus, the film was marketed at an audience familiar with the original television mini-series. The film's marketing also exploited the

nostalgia produced by the popular series' revival, a tactic that proved successful given the film's eventual box-office takings.

Between 2010 and 2016, film distribution in China increasingly embraced marketisation and technology. Indeed, during this period, the Internet became an important distribution outlet for Chinese films (Yin, 2019). Internetisation can thus be seen as one of the major contributing factors behind the rapid growth of the Chinese film industry since 2010. New online technologies, platforms and services have impacted upon every sector of the Chinese film industry from production, through to distribution and exhibition. However, the impact of the Internet is particularly evident in the distribution sector.

Internet-based distribution has become increasingly popular in China, creating new challenges to the conventional distribution channels. Chinese Internet giants such as iQIYI, Tencent and Alibaba have all become major distributors thanks, in part, to their pre-established services, technologies and assets, as well as their ability to access and analyse masses of pre-existing consumer data.

Distributors must work closely with producers in order to make feature films targeting particular markets and audiences. At the same time, distributors must also work with exhibitors in order to secure advantageous placements within the exhibition schedule and maximise box-office takings. Distributors thus require information from both filmmakers and audiences in order to effectively market a given film during the distribution process.

As stated, larger Internet companies enjoy certain advantages over traditional film distributors in their ability to access to a gigantic amount of user information from their pre-established web-based companies. This includes both individual and institutional users, acquired through the various Internet services that these companies already offer. This information ultimately grants online distributors the advantage of owning, analysing and synthesising information that can be used to make profitable trades with both producers and exhibitors.

Furthermore, the Chinese government encourages capable Internet companies to invest real economy, such as manufacturing and services, as well as finance. Such policies

indicate that the government welcomes and encourages Internet company involvement within the Chinese film industry. The integration of the film industry and the Internet industry offers film distributors access to a potential audience of over 772 million Internet users, which naturally offers enormous potential benefits to the Chinese film industry, if the industry is able to successfully capitalise on China's booming Internet industry (China Internet Network Information Center, 2018).

These Internet-based distributors have used their technological and capital advantages to penetrate the film industry and build a new cinematic ecosystem. Competition between these 'new players' and industry stalwarts has led to dynamic growth within the film industry.

In addition, Internet-based film distribution has the ability to challenge the imposed limits set by the exhibitor. Cinema chains in China employ modern exhibition management techniques in which theatres within the same brand utilise the same screening schedule and the same operating systems.⁴⁷ Although there are a large number of cinemas in China, they are controlled by a total of 49 cinema chains, all with fixed film resources. The situation is compounded by the current lack of independent cinemas in China, which ultimately limits the opportunities film have to gain cinematic exhibition (China Film Association & China Federation of Literary & Art Circles Film Centre, 2017). Consequently, the fate of a given film is, to a significant degree, governed by the cinema chains.

Conventional distributors must therefore rely on exhibitors to acquire better placement within the screening schedules, which grants exhibitors a significant degree of power within the industry. The stronghold of the exhibitor has consequently had a negative impact on the Chinese film industry, as it has limited the screen time of films not deemed profitable.

However, it is possible for Internet-based film distributors to directly distribute cinematic products to the end consumers. Under this system, the conventional wholesale mode of distribution is mixed with retail modes in which films are directly

⁴⁷ Cinema chains in China have a generally centralised film scheduling system. Theatre chains were initiated in 2002 to follow the international practice.

sold to the individual, bypassing the conventional exhibitor. The film can be watched via a variety of terminals such as PCs, smart televisions, games consoles and mobile equipment, bypassing the limitations of conventional theatre exhibition.

The first attempt at online distribution was seen with the 2014 film */Breakup Buddies* (NING Hao, 2014), which was distributed online by Maoyan (猫眼). After only two years of development, online distribution had become commonplace. In 2016, a number of Chinese blockbusters such as *The Mermaid* (Stephen Chow, 2016), *Time Raiders* (Daniel Lee, 2016), and *I Am Not Madame Bovary* (FENG Xiaogang, 2016) were co-distributed by online distributors including Maoyan, Weiyang (微影), Gewala (格瓦拉), and Baidu (百度) (China Film Association & China Federation of Literary & Art Circles Film Centre, 2017, 201).

Another key development within the Chinese distribution sector has been the proclivity of distribution alliances between different film companies. The aim of such alliances is to integrate the distribution and marketing resources of different distributors, many of who have expertise within specific regions of China. Wuzhou Film Distribution Alliance (五洲电影发行联盟), established in 2014, has become one of the industry leaders in this regard. Wuzhou Film Distribution Alliance is owned and led by Wanda Media, and has received co-investment from a number of private distributors such as Dadi Shidai Media, Guangzhou Jinyi Media, Hengdian Cinema Chains (HG Entertainment). Wuzhou Film Distribution Alliance distributed 16 films in 2015, achieving a total box-office revenue of RMB 6.75 billion (China Film Newspaper, 2015, January 13).

A further example of such partnerships can be found in the Sihai Film Distribution Alliance (四海电影发行联盟), established in June 2015. Members of the Sihai Film Distribution Alliance include the Shanghai Film Corporation, LTD, Zhejiang Shidai Film, LTD, OMNIOI Media Corporation Co., LTD, Sichuan Film Corporation, and Henan Oscar Movie Circuit Corporation. The Sihai Distribution Alliance has partnered with 750 cinemas and over 4000 screens in five provinces (China Film Association & China Federation of Literary & Art Circles Film Centre, 2016, 27). Joint distribution with Alliance partners (distribution splits) allows companies to share risks, losses and benefits, and

such forms of collaboration have become increasingly common within Chinese film distribution.

However, generally speaking, between 2010 and 2016, the biggest trend within Chinese film distribution has been the sector's marketisation. China's film distribution system has gradually transitioned from a backward, centralised system to a thriving market-oriented one. Under the guidance of favourable governmental policies, private distribution companies have emerged as the cornerstone of Chinese film distribution. Both state-owned and private distribution companies have developed alongside one another in this new competitive environment, conditions that has proved beneficial to both. Furthermore, Chinese film distribution is gradually diversifying. With new developments in online distribution, many innovative distribution methods have emerged in China's film distribution system.

3.4 Operational Practices within Chinese Film Distribution

In this section, I will analyse the distribution practices of both conventional (cinematic) and online-based distribution. In doing so, I will discuss the different ownership structures of the main distributors in their respective fields, examine their divergent approaches to promotion and marketing, their logistical differences and their different operational practices. I will also discuss the advantages and drawbacks of online distribution. However, before engaging in these discussions, two key matters must first be highlighted.

The first of these two key matters is the Film Distribution Business License. According to the 'Interim Provisions on Operation Qualification Access for Movie Enterprises' (issued in 2004), the procedures for establishing a film distribution company must be carefully followed and all companies wishing to engage in film distribution require official declarations and approval. No distribution practices may be conducted until the 'film distribution business license' has been obtained.⁴⁸ Furthermore, according to the

⁴⁸ According to Article 2, these Provisions apply to the administration of qualification access for companies, enterprises and other economic organisations inside China to operate movie production, distribution, projection, import and export, and for overseas companies, enterprises and other economic organizations to participate in the operation of movie production and projection.

‘Catalogue of Industries for Guiding Foreign Investment’, foreign capital is prohibited in the Chinese film distribution, excluding that from Hong Kong and Macau.

According to film distribution regulation, application conditions and procedures are as follows:

Article 7: *State-owned and non-state owned film and television culture work units are encouraged to establish companies only dealing with domestic film distribution. The reporting conditions and procedures are as follows:*

(1) a registered capital of no less than RMB 500.000 (about USD 78,125);

(2) already having distributed two films while acting as an entrusted agent of a film producing work unit or having already distributed two television dramas while acting as an entrusted agent of a television drama producing work unit;

(3) materials such as a letter of application, a copy of the operations permit issued by industry and commerce administration, and agency entrustment credentials of the earlier distributed films or television dramas, etc., must be submitted.

(4) To those conforming to the above conditions and applying with SARFT for the establishment of a film distribution company only dealing in domestic films, SARFT will issue a “Film Distribution Business Permit” for distributing domestic films nationwide; those applying for establishment with the local provincial-level administrative film entity for establishment of a distribution company exclusively dealing in domestic films, the local provincial-level administrative film entity issues a “Film Distribution Business Permit” exclusively for domestic films in that province. The applicant shall go to the administrative industry and commerce management entity of their locality with the “Film Distribution Business Permit” to conduct corresponding formalities.

Article 8: *Companies having obtained a “Film Distribution Business licence” exclusively for domestic films according to the provisions of Article 7 of*

these Regulations, enjoy rights and obligations equivalent to presently existing provincial-level film distribution companies under the “Film Management Regulations”.

Article 9: *SARFT shall, according to the “Yearly Assessment Rules Concerning Distribution and Projection of Domestic Films”, conduct yearly assessment of companies having obtained the “Film Distribution Business licence”.⁴⁹*

Additionally, at this juncture it may be pertinent to call the reader’s attention to another important organisation with regards to both distribution and exhibition; that being the China Film Distribution and Exhibition Association (CFDEA)⁵⁰. CFDEA is tasked with scheduling all films in the exhibition schedule and generally overseeing the Chinese film market (Cain, 2012). CFDEA is an affiliated unit of SAPPRFT and overseen by The Ministry of Civil Affairs of the People's Republic of China. The organisation currently has more than 800 members, including the China Film Group Corporation, Huaxia Film Distribution Company and many other distributors, national city theatres, cinemas, equipment manufacturers, rural digital cinema company and minority language dubbing centre. CFDEA is made up of five branches: the film distribution and urban cinema branch, the urban cinema branch, the film technology branch, the country cinema line branch, and the minority language film branch.

3.4.1 The Main Industry Participants in Chinese Film Distribution and Their Varying Levels of Ownership

Participants within the Chinese film distribution sector tend to fall into one of four main categories of formation: the first category encompasses those distribution companies that also have film production capacities. Such companies include the China Film Group, the Huayi Brothers, Enlight media, Huace film and television, Bona film, New Classics Media (Xinli chuanmei), and Beijing Culture, etc. These companies tend to form an

⁴⁹ Creemers, 2003. Provisional Film Production, Distribution and Screening Operational Access Qualifications Regulations, translated by by Rogier Creemers.

⁵⁰ Official website: <http://www.chinafilm.org.cn/>

integrated closed-loop business model from film production to distribution. The second category incorporates professional distribution companies with a profuse amount of resources accumulated within the industry. This category includes companies such as Union Pictures (*lianrui yingye*) and United Entertainment Partners (UEP, *juhe yinglian*). In this category, metlife continues to explore new distribution modes, such as guaranteed distribution, in order to strive for more high-quality film sources. The third category includes the distribution enterprises that own exhibition resources (both cinema chains and independent theatres), such as Wuzhou Film Distribution, Sihai Film Distribution, Guoying Zongheng, Huaying Tianxia, etc. Companies occupying this third category tend to rely on their relatively strong screening resources in order to provide producers with the best screening ratios for their films. The fourth and final category is comprised of newly emerging Internet distribution enterprises, including Maoyan and Weiying Technology Co. Ltd, commonly known as Maoyan Weiying, Taopiaopiao, Tencent Pictures, Alibaba Pictures, iQIYI pictures and so on. The Internet provides greater possibilities for producers to recoup their costs at an earlier stage because of the direct link between online distributors and their audiences. The companies occupying these four distribution categories are inextricably linked and are at once in competition and co-operation with each other. This has ultimately resulted in the distribution pattern of films becoming increasingly reasonable.

In recent years, as the momentum of growth within the Chinese film industry has waned somewhat, it has become increasingly common practice for distribution companies to integrate resources. The companies that own online resources, for example, have gradually expanded their influence within the industry by merging and integrating, which has ultimately enabled them to compete with the more traditional modes of distribution. Online ticketing platforms provide one such example of an online resource that is now commonplace within the industry, thus demonstrating the ways in which online platforms offer certain advantages over traditional marketing and distribution methods. New modes of distribution tend to emerge alongside new innovations in technology, and market-oriented thinking promotes such innovation within the mechanisms of film distribution.

However, notwithstanding these recent innovations and industry developments, it is important to discuss the structure of ownership within Chinese film distribution and the main participants within the industry.

3.4.1.1 State-Owned Distributors

Two state-owned distributors, China Film Group Corporation (CFG, also CFG) and Huaxia Film Distribution Corporation (Huaxia) have dominated conventional film distribution in China, taking a 67.6 percent share of the market (Weng 2013, 14). Although non-state-owned enterprises have been permitted to distribute domestic films in China since 2003, only the CFG and Huaxia are authorised to distribute imported films, and only the CFG has the right to import/introduce foreign films from overseas. In 2015, the CFG released a total of 393 films, generating an amassed box-office return of RMB 19.9 billion (USD 3.1 billion). This figure included 318 domestic films (RMB 11 billion, USD 1.7 billion) and 75 imported revenue sharing and buyout films (RMB 8.9 billion, USD 1.4 billion). Huaxia, alternatively, released a total of 150 films in 2015, making an accumulated RMB 15.9 billion in box-office revenue. Huaxia's releases included 97 domestic films (RMB 8.5 billion, USD 1.3 billion) and 53 imported revenue sharing and buyout films (RMB 7.4 billion, USD 1.1 billion).⁵¹

Aside from the CFG and Huaxia, there are other state-owned distributors currently operating within the industry. One such example is the Shanghai Film Co. Ltd (SFC), who in 2015 experienced massive industrial growth (a 103 percent increase), releasing 31 domestic films, earning RMB 3.2 billion (USD, 0.5 billion) and acquiring a 7.3 percent share of the market (China Film Association & Chian Federation of Literary & Art Circles Film Centre, 2016, 26). However, the SFC's size and share of the distribution sector is massively outweighed by both the CFG and Huaxia.

The CFG was entirely owned by the government and thus obliged to purchase all films made by government-owned filmmaking studios. Consequently, Chinese cinema under the centralised system often lacked variety, and the lack of competition between studios ultimately resulted in large financial losses for the CFG. The heavy losses incurred by the

⁵¹ Resource from CFG, cited in The Research Report of Chinese Film Industry, 2015, 25.

planned economic system, eventually forced the MRFT to open China's domestic market to imports, especially Hollywood films, with a strict quota of ten films per year enforced in 1995. Following this, the CFG would be as the only Chinese distributor designated to import and distribute films from overseas.

Chinese audiences largely welcomed imported Hollywood films, with many Hollywood blockbusters achieving unprecedented box-office success in China. Thus, film imports were perceived as a potential solution to the CFG's financial issues. Under this system, the CFG could share up to 46 percent of the total box-office of imported cinema; the provincial distributors could take 8–10 percent and theatre operators 44–46 percent (cited in Davis and Yeh, 2008). In late 1994, the Warner Brothers' film, *The Fugitive* (Andrew Davis, 1994) was imported by the CFG as one of the first 'big ten' films allowed into China. The film grossed RMB 25 million (USD 3.9 million), dwarfing the top-selling Chinese film, *Chongqing Negotiation* (LI Qiankuan, XIAO Guiyun, ZHANG Yifei, 1993), by more than RMB 17 million (USD 2.7 million). In 1995, the CFG's top grossing film, *True Lies* (James Cameron, 1994) (Twentieth Century Fox) would see similar success, bringing in box-office takings of RMB 120 million (USD 18.75 million). The importing and distributing of big Hollywood movies, typically blockbusters, successfully rejuvenating the Chinese film market, injecting vital capital into what at the time was a failing industry, and guaranteeing jobs for nearly half a million workers in the Chinese film industry (Davis and Yeh, 2008).

In February 1999, eight formerly separate entities, the Beijing Film Studio, China Children's Film Studio, China Film Co-production Corporation, China Film Equipment Corporation, China Movie Channel, Beijing Film Developing and Printing & Video Laboratory, Huayun Film & TV Compact Discs Company, merged under the umbrella of the CFG.⁵² This can be regarded as an early example of vertical integration in the Chinese film industry.

The corporate structure of the CFG facilitated a number of bold and influential initiatives, in which the distribution sector of the CFG was combined with both up and downstream sectors of the film industry. The CFG would also secure shares in film/television assets,

⁵² CFG website: <https://web.archive.org/web/20080817070238/http://group.chinafilm.com/>

leading many to perceive the state as a kind of Chinese mega-media enterprise. The CFG has listed five cornerstone industries under its remit: film and television production, film distribution and exhibition, digital cinema, film import/export, and investment in cinema construction. These cornerstone industries include post-production, equipment leasing, marketing and merchandising, optical disc manufacturing, advertising, property management, and real estate development. The group has also taken the lead in financing, co-production, joint ventures, and cinema circuits. As a result, the CFG owns 14(15) fully funded subsidiaries, 34 major holding companies and joint stock companies, and the only movie channel (CCTV-6) in the country, with a total asset worth of RMB 2.8 billion (USD 438 million). The urge to monopolise is apparent and stems from the company's government origins.

In 2015, a potentially historic moment occurred within the Chinese film industry, one that can be seen as an important experiment in the privatisation of China's SOEs. In 2015, for the first time, the CFG issued its public offering in Shanghai Stock Market (Coonan , 2015). Besides raising money from the public, the stock offering by this very influential state-owned film company symbolised the willingness of the state to introduce more transparent and modern management practices, while also demonstrating the state's readiness to embrace further privatisation.

Huaxia Film Group, the second largest state-owned film distribution company, was established in 2003 following the merging 19 different state-owned companies. Like the CFG, Huaxia is also a public listed company, with SAPPFT being its largest shareholder, owning 20 percent of Huaxia's shares. The CFG also has an 11 percent share of Huaxia. However, unlike the CFG, Huaxia does not have the right to distribute imported films, which may potentially limit Huaxia's growth, especially in comparison to the CFG.

The main mission of these two state-owned distributors is to promote domestic films. The government, as main shareholders of both the CFG and Huaxia, oblige these two major Chinese distributors to distribute at least twenty domestic films each year, including twelve major main-melody films. The two companies are also obligated to turn over seven percent of the total box-office revenue of every imported film to the state-controlled Chinese Film Export & Import Corporation (CFEIC), to support the production of special category films made for peasants, children, and for educational purposes.

3.4.1.2 Private Film Distributors

In September 2003, the ‘Provisional Provisions on the Admission of Film Production, Distribution and Exhibition Business Qualifications’ were established.⁵³ This policy made adjustment to the limitations imposed up access to the film production, distribution and exhibition industries. The policy had a huge impact on the distribution sector as, for the first time, private enterprises and private capital were permitted into film distribution. The upshots of these developments would be diversified distribution options for Chinese films.

In 2003, seven private enterprises were granted licenses making them eligible to distribute film in China, introducing competition in the virtually monopolised distribution sector. The first seven private distribution companies were: Beijing Bona Cultural Communication Corporation, Beijing New Picture Film Co., Shanghai Golden Palm Film Production Co., Guangdong Dahe Film Co., Chengdu Eying Film Co., Beijing Lianmeng Entertainment Media Co., and China Huayi Yinxian Co. (Yu L. , 2015, 54-58). In 2015, two relatively large private distributors, Enlight and Bona released 14 and 16 films respectively with the former accruing revenue of RMB 5.6 billion (USD 875 million), while the latter made an accumulated RMB 3.1 billion (USD 484 million).

Although more privately-owned distribution companies have since entered the industry, the CFG and Huaxia continue to occupy central positions within Chinese film distributors, largely due to their monopoly on imported film distribution and incomparable domestic resources.

However, in recent years, an increasing number of privately owned distributors have been involved in massive box-office successes. For example, the relatively small distribution company Ekco would go on to become one of China’s top grossing distributors in 2015 on the back of a single film. Their success was due to the film, *Monster Hunt* (Raman Hui, 2015), which would go on to generate box-office figures of RMB 2.4 billion (USD 375 million). A relative lack of resources has forced private distributors to rely on one or two films in the hope of a successful return, which is naturally a very risky tactic.

⁵³ In Chinese: 电影制片、发行、放映经营资格准入暂行规定

However, an interesting phenomenon needs to be addressed at this point. That being that fact that nearly every big release in China incorporates more than two distributors, implying that Chinese distributors are somewhat cautious and prioritise risk mitigation over potential profit making. For private distributors, being a co-distributor alongside a big state-owned distributor can provide a lower cost means of working with more popular films, while also granting them access to the resources of the larger state-owned firms.

In contrast, privately owned distributors tend to take a greater share of online film distribution, mainly because most of online distributors are owned by large privately owned Internet companies. Meanwhile, online film distributors have relatively fewer limits on the films they can distribute. Deregulation of online distribution has resulted in a more competitive business environment, one bolstered by new technologies and innovative business practices that increase efficiency and decrease distribution costs. These developments ensure more sustainable growth for online film distribution in China, while offering benefits to both the distributors and their audiences. The major players in online distribution are Alibaba Pictures, Tencent (Weiyang), Maoyan, and iQIYI.

3.4.1.3 The Distribution of Foreign Films in China

While I have discussed the matter of foreign films in the previous production chapter. Here, I would like to discuss the specifics of foreign film distribution. Owing to the fact that foreign investment is wholly prohibited in the Chinese film distribution, there are two main methods of distribution for the foreign films in the Chinese film market.

(1) Imported films: Quota and revenue sharing basis

Since 1994, the government has allowed foreign films to be exhibited in Chinese cinemas on a revenue-sharing basis (*fenzhang pian*). The films selected for import are invariably made by Hollywood's Big Six studios,⁵⁴ as their films tend to be the most popular with

⁵⁴ Hollywood's big six include Walt Disney, Warner Bros, Paramount, Twentieth Century Fox, Sony, and Universal

Chinese audiences and ergo more profitable for the Chinese enterprises engaged in the revenue sharing scheme, i.e. the CFG and Huaxia.

Between 1994 and 2002, the quota on imported films was limited to ten films per year. This figure rose to 20 films per year in 2002, and again in 2012, when the import quota increased to 34 films annually, including 14 of which were screened in either 3D or IMAX formats. It is worth noting that while the import quota is a fixed figure on paper, some degree of flexibility has been observed and changes have been made. For example, in 2016, 39 films were allowed into China as revenue sharing films, five more over the quota of that year.

The only Chinese film distributors permitted to distribute imported films are the CFG and Huaxia. However, both the CFG and Huaxia are permitted to co-distribute films with private partners. According to the most recent agreement signed by the MPAA and China Film Group in late 2015, rights holders of revenue sharing imports receive 25 percent of the net box-office revenue without any additional withholding for taxes or marketing expenses (Papish, 2017). Furthermore, once the film has received the relevant authorisation from the Chinese censors, the release schedule of these foreign films is fixed regardless of other films it may face as competition.

(2) Flat fee/Buy-out

The second method of importing foreign films into China is the *maiduan pian* or *pi pian* model, as known as buy-out films. For films not included in the official import quota, Chinese distribution companies can negotiate with the film's producer for local rights, for which they pay a fixed price. After this price has been negotiated, the Chinese distributor is entitled to keep all Chinese revenue (Papish, 2017). Using this method, roughly 30 foreign films could enter the Chinese film market, although in 2016, this figure rose to an unprecedented 51. The limit to the number of buy-out films is flexible, but the CFG and Huaxia typically distribute around 15 films each per year using this method.

However, the distribution of buy-out films is not limited exclusive to SOEs. Indeed, private distribution companies are eligible to negotiate with local producers (overseas) and acquire the rights first. However, the matter is somewhat more complicated.

Following these initial negotiations, the private distributors must apply for co-distribution rights from either the CFG or Huaxia. Once the film has passed the relevant application and censorship processes, the private distributors must pay the CFG or Huaxia an agency fee, which typically amounts USD 20,000. Only then can the private distributors distribute the film as an assist-distributor (Yang L. , 2011). Indeed, films such as *Now You See Me* (Louis Leterrier, 2013), *The Expendables 2* (Simon West 2012), *The Expendables 3* (Patrick Hughes 2014), even the forthcoming *The Expendables 4*, have all sold their Chinese distribution rights to Kuailu Investment Group (Shanghai) and Max Screen (Beijing), both of which are private distributors.

According to Papish (2017), these films belong to the unofficial release quota made by SAPPRFT, so these buy-out films are limited in number: in 2016, a record 51 films were shown in China this way, a significant increase from the forty-one films unofficially released in 2012, the twenty-five in 2013, thirty-three in 2014, and twenty-eight in 2015.

Additionally, films from both Hong Kong and Taiwan, they are not included in the annual imported quota in accordance to the Closer Economic Partnership Arrangement (CEPA, 2003) and the Economic Cooperation Framework Agreement (ECFA, 2010).

3.4.2 Promotion and Marketing Approaches

In order to attract audiences to the cinema, distributors put a lot of effort and, significantly, a lot of capital into promoting and marketing their forthcoming films. Distributors employ innovative strategies and technologies to enhance the effectiveness of a film promotion campaign, one that not only utilises conventional outlets such as television and print media, but also emerging outlets such as the Internet and online portable devices. Promotion methods are becoming increasingly diversified in China. Distributors not only employ vertical and linear forms of marketing, that is to say, promotion that is produced by advertising agencies and consumed by audiences, but distributors are also increasingly capitalising on lateral forms of marketing, that being promotion from audiences to audiences via online forums and video platforms. This section will introduce some of the more innovative modes of promotion and marketing within the Chinese film industry.

3.4.2.1 Conventional Film Promotion Practices

(1) The Roadshow

The roadshow has become an effective means of promoting films in China, and accordingly, distributors have placed increasing emphasis on the roadshow as a means of generating hype for their latest releases. Although most Chinese cinemas are chains, certain cinemas retain some degree of flexibility in order to adjust their screening schedules to attract local audiences. Due to the cultural diversity of China, local audiences have different viewing habits and preferred styles. Therefore, it is important for distributors to work alongside local cinemas in order to produce more locally focused marketing campaigns. This form of collaboration will also grant the distributors the opportunity to convince local cinemas to arrange better schedules for their films.

The roadshow provides a platform for distributors to disseminate information surrounding newly released and forthcoming films, and the local cinema is invariably the venue of such an event. Distributors normally invite local reporters and celebrity guests to the event in an effort to raise its exposure, a practice that is naturally welcomed by the local cinema owners that provide the venues. Furthermore, if the event is able to attract a large audience, this will give the local cinema owners a certain level of confidence in the film's popularity. Such reassurance may lead the cinema owners to increase the number of screenings or enhance the film's position within the schedule to accommodate this estimated high demand.

The nature of the roadshow can vary and the event has witnessed many variations and innovations, from a more conventional press conference to interactive events that include the online broadcasting of games, gift giving, parties, etc. The roadshow has also been integrated into other cultural events such as pop concerts or the filming of television programs in order to increase public visibility. The inclusion of celebrities at roadshows has become a strategically important means of gaining publicity and ensuring that an event will be well attended. This is because many attendants go to the roadshow simply to see and hopefully interact with the stars, rather than because of their interest in a particular film.

The schedule of roadshows is always intensively set in order to minimise costs and raise the profile of a film within a short time window. Typically, six to eight events per day are coordinated and it is not uncommon for roadshows to visit dozens of cities in a time limit of less than four weeks (Zhang M. , 2016).

It is rare to have large-scale roadshows for imported films in China. Although some events for Hollywood blockbusters have been held in recent years. These events are invariably limited to individual events as opposed to the typical roadshow formula, and these events tend to only be in Tier One cities such as Beijing and Shanghai. The main difficulty in organising such events for imported films is the getting western film stars to participate. Indeed, it is very rare that these stars are in China long enough to participate in a roadshow, given their often-hectic schedules.

The scale of a roadshow is an early indicator of a film's final commercial outcome. The 2015 film *Monster Hunt* arranged a roadshow that travelled to 24 cities before the film went on to secure box-office takings of RMB 2.4 billion (USD 375 million). By the same token, the 2016 film, *The Mermaid* held roadshows for more than 20 cities before going on to earn RMB 3.4 billion (USD 531 million) at the Chinese box-office.

However, domestic blockbusters are not alone in exploiting the roadshow as a means of publicity, some low budget art films have also used roadshows as a means of raising their profiles. The filmmakers of *The Coffin in the Mountain* (XIN Yukun, 2015), an art film made on a budget of RMB 1.7 million (USD 0.26 million), visited more than 20 cities as part of their roadshow, and the film would go on to make more than RMB 10 million (USD 1.56 million). Award-winning director JIA Zhangke joined the roadshow campaign of his *Mountains may Depart* (2015), visiting more than 17 cities over the course of the promotion. Ultimately, *Mountains may Depart* would go on to reap more than RMB 30 million (USD 4.68 million) in box-office revenue, more than all of Jia's previous films combined (Zhang M. , 2016).

The evolution of the Chinese film industry roadshow can be broken down into three stages. In the early 2000s, the roadshow was a luxurious campaign used to promote a select few, high profile films. Roadshows were typically organised for the Chinese director FENG Xiaogang's new year films and some other high profile co-produced films such as *Hero* (ZHANG Yimou, 2002) and *Infernal Affairs* (Andrew Lau and Alan Mak,

2002). During such roadshows, celebrities tended to only visit Tier One cities in order to attend press conferences.⁵⁵

From 2010 to 2013, the Chinese film industry witnessed increased competition driven by both domestic art films and blockbusters, which were increasingly promoted via roadshows. Indeed, popular Chinese stars, such as FAN Bingbing and ZHANG Ziyi would attend over 70 roadshow events in 2012 in order to promote *Buddha Mountain* (LI Yu, 2011) and *Life is A Miracle: Love for Life* (GU Changwei, 2011) respectively. Between 2010 and 2013, the roadshow would formally become one of the most prominent marketing and promotion methods utilised in China.

Since 2013, the roadshow has evolved and expanded, transforming into something altogether more creative and sensational. Depending on the type of film, the venues of the roadshow has moved from the cinemas to shopping malls, stadiums and universities, depending on the specific target audience. For example, HE Jiong, a popular star and a former university lecturer, held roadshows for his youth romance *Forever Young* (2015) in ten universities. As a result, a significant portion of the box-office revenue of the film came from university students.

A successful roadshow requires calculated preparation. The distributor needs to first agree on the venues with the cinema chains, including which cities to host the roadshow. In order to save travelling time and costs, the route and schedule of the roadshow need to be carefully planned in accordance with the availability of celebrity guests and filmmakers. Once these arrangements have been agreed, the distributor is then tasked with advertising the events in order to ensure good attendance, which will hopefully encourage exhibitors to grant the film a favourable position in the exhibition schedule when it is finally released.

However, when organising the roadshows, balancing and appeasing the various exhibitors is not always a straightforward process. Distributors typically strive to arrange roadshows with multiple cinema chains to ensure greater exhibition exposure for their forthcoming releases. However, these chains are naturally in competition with one

⁵⁵ For further information on the Chinese city tier system, see the exhibition chapter in which this term is unpacked in greater detail.

another and so distributors need to be tactful to avoid potential conflicts between the chains. A miscalculation could provoke misunderstandings or incongruity between the distributor and cinema chains that may have serious ramifications for the film's eventual exhibition exposure. In certain cases distributors have held split events with different chains as a result of discrepancies between chains, dates and/or venues. Furthermore, in some Tier One cities, some of the larger chains such as Wanda, Dadi, Omnijoi Media have multiple cinemas which creates a further challenges for distributors planning roadshows.

Cinemas, regardless of which chain they belong to, also compete with each other for the prestige and additional exposure and income that comes from hosting roadshows. Normally, the top five cinemas in Tier One or Two cities have a far greater chance of hosting roadshows because of their notoriety and facilities. However, in some Tier Three or Four cities, cinemas often lack the relevant facilities needed to host a roadshow. Furthermore, these lower tiered cities tend not to have the large, organised fan bases that their higher tier equivalents have, consequently making them less attractive sites for roadshows.

It is worth noting that a successful roadshow does not always guarantee better exhibition scheduling at the cinema, however. A good roadshow is usually a good indicator of interest in the film being advertised and therefore a sound indicator of subsequent cinema attendance numbers. However, if this interest drops after the first few days of screenings, the cinema owner may well reduce the schedule accordingly. Distributors are therefore forced to take somewhat of a risk when selecting cinemas to host the roadshow, as these exhibitors may only want to take advantage of the increased publicity that the roadshow generates. This is invariably the case when a domestic art film clashes with an imported Hollywood blockbuster in the schedule. The cinema chain may be willing to host the roadshow for the film, capitalising on the publicity and kudos of the event. However, given the limited box-office appeal of domestic art cinema, the exhibitor may then favour the more financially lucrative Hollywood blockbuster in its scheduling.

(2) Television Programs

Television has become an important method of promoting films because of its large audience reach. Distributors encourage celebrities and filmmakers to make television programs that promote their forthcoming films and even pay for such programmes to be produced. Such programs include dedicated television interviews that offer additional information on the production process including the script-writing process, casting, the rehearsal process and even interesting film-related gossip that may attract the audiences' interest. This form of television-based publicity is highly encouraged by the actors'/actress' agents, who generally perceive such activities as an effective means of cultivating the star power of their clients.

3.4.2.2 Marketing Strategies of Online Distribution

Conventional marketing approaches, such as the two methods examined above, have two main drawbacks. First, their costs are invariably very high. Using traditional media platforms to promote a film requires that distributors purchase access to the relevant media, whether that be in the form of advertising space in newspapers and magazines, or an advertising time slot on television or radio. The prominent placement of advertisements within print media or on prime time television potentially grants these advertisements a wider customer reach. However, this increased exposure comes at an increased cost.

Second, conventional methods of promotion are not always proactive in terms of attracting the attention of potential audiences, and their interaction with their potential audience is limited. Conventional forms of advertisements tend not to target precise audience groups but instead target a broad audience in an effort to maximise potential profitability. Furthermore, the short life cycle and/or circulation of either television or print media may result in potential audiences missing relevant information.

According to EntGroup statistics, in 2015, the total marketing cost of the Chinese film industry stood at about RMB 3.8 billion, a figure that rose to RMB 4 billion (USD 625 million) in 2016. ZHANG Jin, CEO of Joy Pictures, indicated that this RMB 4 billion figure was the sum of all the publicity budgets for domestic films released in China, including

the communication cost with the partners, publicity materials, press releases, personnel costs and so on...(China Film Association & China Federation of Literary & Art Circles Film Centre, 2017, 212).

However, online distribution may prove to be a more cost effective method of marketing films. Professional film critics and audiences are able share their reviews, comments and opinions of films online through social platforms, creating a more dynamic and interactive fan experience. Such an approach challenges the traditional modes of unidirectional, top-down marketing and encourages a more horizontally integrated system of promotion. This so-called word-of-mouth marketing approach has been deemed a more productive method of targeting specific audiences.

Promotions can also be advertised through online streaming platforms that are accompanied by topics, information and/or products relevant to the film. Furthermore, Internet-based crowdfunding websites not only allow fans to fund film productions that interest them, but this alternative financing method can also be used as marketing tool in combination with online pre-sale ticketing, etc. With Internet-based marketing, the audience/users themselves become a major marketing force. There are two marketing approaches that can support this argument.

(1) Word-of-mouth marketing via the Internet

Word-of-mouth marketing is essentially utilising user comments posted on online social networks to promote a particular product or service. Word-of-mouth marketing is an emerging and innovative marketing approach and has been adopted by a number of Internet-based film distributors. With word-of-mouth marketing the audience are not simply treated as passive consumers but rather active participants. Audiences are encouraged to publish their views on the film in social networks such as Weibo , WeChat or other portals such as Douban , Mtime and Dianping.com. Their evaluation serves as a source of information to influence other potential audiences. Such information also gives the Internet companies who own these social media platforms a huge amount of information that can be used to target audiences with related products and services. Furthermore, this information can be utilised to shape future productions to better suit audiences' tastes, as invariably these Internet companies are part of larger media conglomerates.

It is important for film marketing teams that engage in online distribution to utilise reputable film critics, filmmakers, academics and even online tastemakers who are widely respected because of their authority within the industry and/or because of their ability to influence audiences. Said individuals require a large online presence and must have a large number of followers on social media platforms, such as Weibo, WeChat, Facebook, etc. The marketing team then needs to be able to control the direction of the commentary and lead the public opinion.

Towards the release date of a new film, Internet-based distributors firstly ask every member of the marketing team to intensively post material surrounding the film on their personal social network platforms. This may include relevant news articles, interviews and critical commentary, etc. It is hoped that by posting such material, the marketing team can produce a snowball effect in which their followers re-post the materials, which is then re-posted again by their followers and so on. This, along with more traditional forms of promotion can result in a film becoming one of the top search results if a large data stream on the film exists and is successfully circulated by marketers.

Of course, word-of-mouth promotion is ineffective in isolation. Indeed, typically during the first few weeks following a film's general cinematic release, the distributors will invite potential audiences to participate in roadshows to further promote the film beyond the virtual world of the Internet. When possible, filmmakers and stars will participate in the roadshow in some capacity, interacting with fans and expanding the film's potential audiences.

During this period, the film is continuously promoted via comments from audiences and word-of-mouth communication. In addition, cinemas can also hold special events such as small-scale pre-release screenings for particular audiences such as journalists, critics, filmmakers and academics. Such events can be followed by in-depth discussions on the film and related topics and these events can be publicised online.

According to *The Research Report on the Chinese Film Industry* (China Film Association and CFLAC, 2017, 239), Chinese audiences are chiefly exposed to information regarding newly released films via the following methods: 61.3 percent of the audience surveyed claim to learn about forthcoming films through online comments and information; a further 35.4 percent claim to find out about newly released films through friends sharing

information on WeChat, a popular Chinese social media platform; 44.6 percent claim to watch trailers at the cinema or on other media platforms; and only 29.7 percent claim to learn about new films through traditional forms of advertisement. Moreover, as the research report indicates, word-of-mouth marketing is a particularly effective mode of promotion, with 78.9 percent of those surveyed stating that they have purchased theatre tickets based on the comments and opinions of other people (China Film Association and CFLAC, 2017, 241).

The Internet may also prove to be an effective means of quickly disseminating information that may not be directly linked to the content of the film, but which may surround its production and may prove relevant to its promotion. Take, for example, the domestic art film, *Song of the Phoenix* (WU Tianming, 2013). In its opening week, the film had only taken a one percent share of the market and generated less than RMB 1 million (USD 150,000). The reason for such low figures was due to the fact that the film was released in and around the same time as a number of Hollywood blockbusters, including *Capitan America: Civil War* (Anthony Russo and Joe Russo, 2016). It thus seemed certain that *Song of the Phoenix* would be quickly withdrawn from exhibition. However, the film's producer, FANG Li, made a short video in which he begged exhibitors to give the film a better position within the release schedule, and begged audiences to go and see the film, which was then posted online.⁵⁶ This sentimental video engendered a great deal of sympathy from both audiences and film critics, and accordingly the film's box-office takings changed dramatically. Following the release of the film, *Song of the Phoenix* went on to earn more than RMB 10 million (USD 1.56 million) in a single day and its share of the market rose to 4.5 percent (China Film Association and CFLAC, 2017, 221). Whether this was a clever marketing ploy on the part of Fang or an indictment of China's current film market that offers little support for independent filmmakers, the use of online video services allowed Fang to connect with the masses, and implore more people to see the film.

⁵⁶ Fang is seen crying and kneeling to beg the cinema managers to allocate more screening quota for the amount of theatres' showing the movie. He tells viewers: 'If you [theatre managers] can give us this weekend in a row gold field, although I am old, I am willing to kneel for you.'

(2) Film marketing via crowdfunding

Crowdfunding refers to the process of raising funds for creative projects via the Internet. Compared with the traditional financing methods, the practice of crowdfunding typically sees a large number of people, typically everyday people as opposed to traditional investors, invest smaller amounts of money to fund a given project. This highly distributed investment practice, dilutes the amount of capital invested by each individual investor, therefore minimising risk. Consequently, ordinary people can invest in films, meaning that theoretically at least, projects are no longer produced purely for financial gain but for the love of cinema itself. Citizens can actively contribute to project that appeal to their own personal interests or include some of the favourite filmmaking personnel. For this reason, crowdfunding has emerged as a new, innovative means of producing cinema.

For example, Alibaba Digital Entertainment established the 'Yu Le Bao' (Entertainment Crowdfunding) in 2014. The venture proved extremely popular, attracting 240,000 users within the first two days of the site's inauguration (Coonan, 2014). The site has since raised more than RMB 560 million (USD 87.5 million), which will be used to fund nearly 20 film productions. Indeed, project funded by the Alibaba's Entertainment Crowdfunding project include the thriller, *Wolf Totem* (Jean-Jacques Annaud, 2015) and the science fiction comedy, *Impossible* (Sun Zhou, 2015). As of June 2015, the accumulated box-office revenue generated by 'Entertainment Crowdfunding' films has exceeded RMB 3.7 billion (USD 578 million).

Crowdfunded films enjoy a number of other benefits besides the initial investment. Fans that have invested in film projects will undoubtedly buy tickets to see the film when it is finally released, and they are likely to be accompanied by friends and/or family. These fans are also motivated to promote the film via word-of-mouth because they have invested in the film and thus have a stake in its success. Therefore, crowdfunded projects are able to secure a base audience from their investors and rely upon their enthusiasm to contribute towards the film's promotion. These factors can ultimately help a film achieve box-office success, which has significance beyond merely the financial. Crowdfunding allows the audience to become emotionally invested in the films they support. Not only do fan invest in these film projects financially, but they can come to

form a profound connection with the film, whereby the film becomes an important aspect of their lives. Such deep emotional engagement is not so easy to attain through traditional distribution methods.

3.4.2.3 Data from online ticket sales

The rise of online ticket sale companies such as Maoyan, Weying Shidai, Tao Piaopiao and Baidu Nuomi has fundamentally transformed the Chinese film industry, and has enabled these companies to leverage their newly found power into areas outside of online ticketing such as distribution, marketing, and even production (Papish, 2017). In 2013, only three out of every ten-cinema tickets were purchased online. However, by the first quarter of 2017, this figure had risen to a staggering eight out of ten. The industry landscape has shifted significantly during this time as a myriad of online ticketing platforms have competed to acquire strong user bases, build relationships with exhibitors and distributors, and win the financial backing of deep-pocketed investors.

Nowadays, online ticket sales applications such as WeChat Movie, Tao Piaopiao and Maoyan have built various collaborations with production and exhibition in order to promote their films and increase box-office revenue. The online ticket sale removes temporal and spatial limitations of conventional ticket sales, and tickets can now be sold prior to the release of the film, providing exhibitors and distributors valuable information that can be used to predict the box-office revenue and adjust the exhibition schedule accordingly (Liu Y., 2015, 84-88). Meanwhile, thanks to the multi-media nature of the Internet, online ticket sales can be incorporated alongside other promotions, such as trailers and/or other forms of advertisements, which can incentive audiences to make purchases.

Online ticket sales information is regularly packaged with other business-related data. For example, social networks can insert film tickets sales into data communicating user habits. By the same token, film tickets can also be sold alongside other services, such as banking, online shopping, group buying, etc. It is worth noting that most online ticket

sales are subsidised by the sellers, who are invariably sub-divisions of Chinese Internet giants. The subsidies benefit audiences by offering them discounted prices.

More tickets sold via online ticket applications means more audience data is generated, information that is invaluable to distributors as it allows them to make calculated market predictions. Therefore, many online ticket sales companies have also become involved in the film distribution sector as ticket brokers.

Indeed, WANG Xing, CEO of Meituan (Maoyan's owner), argues that as an online ticket agent, Maoyan has a greater understanding of contemporary Chinese audiences than China's traditional film distributors thanks to the large amounts of big data Maoyan have collected on their users. This data not only indicates audience preferences but also highlights their consumption habits. Moreover, these records could also reveal the popularity of particular genres, information that could be extremely useful for the marketing of a given film (Zou September 24, 2014).

In addition, pre-release ticket sales enabled by online ticketing has allowed distributors and exhibitors to make predictions regarding a given film's box-office success. This information will allow exhibitors to adjust their screening schedules accordingly. In the past, the exhibition schedule was largely reliant on the individual experience and intuition of cinema managers, a naturally quite risky business practice. In the future, the online ticketing agents could be tasked with providing scientific predictions based on their big data. This would greatly reduce the risk caused by the current scheduling system.

3.4.3 Logistics

Traditional film stocks create a certain number of logistical problems for film distributors. Physical film stocks can only be copied a limited number of times before they begin to lose quality. What's more, the production cost of film stocks is very high and they can be physically unwieldy, making them logistically difficult to distribute. The digital format, alternatively, enables online distribution in which an unlimited number of copies can be made without compromising the quality of either the video or the audio. By using state-of-the-art technologies such as digital printing and satellite communication, transportation and delivering cost are greatly mitigated.

The more productive nature of online film distribution has transformed regional distribution offices, which were initially introduced to reduce the costs of transporting film stocks to nation-wide distribution companies. The distribution of film prints has since become somewhat of a corporative practice, allowing distribution companies to allocate more time and effort to promoting their latest films and maximise revenue.

Following approval by the Film Bureau, a given film will be delivered to a local studio (usually Shanghai Film Studio or Beijing Film Studio) for dubbing, subtitling and printing. Since 2007, digital printing has been gradually replacing traditional physical film printing in China as a means of cost saving. For example, a single physical film print can cost around RMB 10,000 (USD 1,562), but the cost of a 2K digital print amounts to roughly RMB 600 (USD 93.75) (Yu L. , 2015, 75-78). The digital copy is also much lighter than a filmstrip copy, which lowers the cost of delivery to cinemas around the country. The reduced cost of digital printing proves particularly beneficial to low budget films because the same distribution budget can now cover a much wider distribution range, meaning that the film is theoretically available to a greater number of cinemas.

Digital prints also allow distributors and regulators to monitor screening information more accurately, and this information can also be used as evidence when revenue sharing disputes occur. In order to safeguard the digital print from piracy, digital films can only be projected if the theatre has the appropriate digital key, which are distributed by the CFG. These keys have a limited lifespan, and usually expire after fifteen days. For larger, high-profile releases, the key can be renewed and extended to thirty days of film's initial release, after which a two week extended limited run will usually follow. Sometimes extensions can be authorised twice or even more for a film with particularly strong legs (Cain 2012). The digital copy can also be encrypted for anti-piracy purposes, which also prohibits unauthorised screenings by cinemas attempting to make illegal, undeclared revenue.

Satellite communication has also been increasingly utilised in the distribution of digital films. The Centre of Digital Film Management, a subsidiary of the SAPPRFT, operates the transmitting, receiving and communication protocols surrounding satellite distribution, and is tasked with delivering digital films to cinemas throughout China. Satellite-based distribution reduces logistical costs as there is no longer any need to physically deliver

prints to cinemas, a costly process given the sheer size of China. Satellite-based distribution also improves the likelihood of cinemas actually receiving the films, especially cinemas in more remote areas. It is worth noting that satellite-based distribution differs from Internet-based methods as the latter refers to the films directly distributed to audiences, typically via online streaming services, and thus requires fast speed networking facilities. Satellite-based distribution is a method of delivering films directly and exclusively to cinemas.

In the case of conventional film distribution, physical films are delivered to exhibitors as wholesale products, which exhibitors retail to individual audiences. However, in addition to delivering films to exhibitors, online film distribution allows the distributor to deliver films directly to audiences, diversifying the means through which films can be consumed by audiences and therefore integrating the wholesale and retail processes. The recipients (individual or institutional customers) can receive the film via four principal means. (1) From on-line streaming platforms, (2) From television set top boxes (STB) connections, (3) From smartphone intelligent terminal services, (4) From Film Bars/private cinemas.

Rather than physically attending cinemas to watch scheduled films, audiences now have the freedom to choose to watch their favourite films at anytime, anywhere, the only restriction being the need to have an Internet connection. By visiting online streaming websites or even watching films on STB's and smartphones at home, the viewing process has been made more convenient for audiences. These new online distribution options essentially eradicate scheduling limitations. Films are now accessible twenty-four hours a day, and thus have a much longer lifespan than was previously possible under China's cluttered exhibition schedule. This naturally benefits the distributors as films are now able to maximise their revenue intake at a relatively low maintenance cost.

Online streaming services also provide more opportunities for audiences to see low budget and/or arthouse films that normally struggle to acquire exhibition space in the cinema chains because of their niche nature and low box-office potential. The reduced costs and eliminated schedule of online streaming mitigates the risk of making a loss from exhibiting low budget films, allowing the film market to diversify. For large budget films, online distribution can serve as a complementary means of further increasing the

revenue generated from the film, which also benefits the distributor. Films can also be sold to online streaming platforms after or concurrent with their traditional cinematic release to allow the film to maximise revenue beyond the conventional box-office.

A further benefit of online film distribution is the additional revenue that can be generated from embedded commercial advertisements. While advertisements may be embedded into films via product placement or played prior to a film screening at the cinema, on-line streaming allows distributors to insert adverts into their films. However, this measure may compromise the viewing experience of the audience, so it may prove beneficial for distributors to include ad-free streaming services that come at an increased price.

One of the greatest challenges facing online streaming services is the cost of copyrights and the longstanding issue surrounding the compromised viewing experience. Providing audiences with a variety of choice without temporal and spatial limitations requires streaming services to purchase as many permanent or long-term copyrights as possible, which could initially prove costly, despite the fact the subsequent maintenance costs are significantly reduced. With regards to the audiences' experience, while online streaming provides a greater level of accessibility and convenience, this comes at the cost of a compromised viewing experience. For many, films are screened on devices that pale in comparison to the emersion offered by the cinema. Consequently, in order to improve their viewing experience, audiences are required to purchase better and more up-to-date equipment and technology. In fact, one may argue that the online distributor has shifted the costs of exhibiting to the end users in order to maximise their profits. Notwithstanding these technical limitations, this form of easily accessible online spectatorship offered by streaming services can produce distracted modes of cinema engagement, in which a film plays at the same time the spectator browses the web or peruses social media. This can be contrasted with the darkened space of cinema, which invariably has the viewer's full attention.

Alternatively, there is the private cinema. The private cinema combines online streaming with conventional cinematic practices. The films played in private cinemas come from online sources and it is at the owner's discretion which films play and under what schedule. Private cinemas thus have a certain level of flexibility when it comes to

selecting films for exhibition, although, their selection is invariably influenced by the availability offered by their online sources and/or audience preferences, which can be tracked through the pre-booked ticket data. The flexibility exhibited by private cinemas allow them to distinguish themselves from the conventional Chinese cinema chains in which the schedules are fixed. Although private cinemas do not offer the same levels of flexibility as online streaming, the viewing experience is greatly improved because of the professional screening equipment utilised. Furthermore, the niche nature of private cinema spectatorship allows the cinemas to provide more customised services that may also include food and/or drinks, for example, services that add value to the cinematic experience and further distinguish the private cinema from the chains (China Film Association & Chian Federation of Literary&Art Circles Film Centre, 2016, 38-39).

3.4.4 Film Release Windows

When engaging with the issues surrounding a film's release, it is important to first shed light upon the four main patterns of release for films in China; these includes the standard release, which sees films first released cinematically before later being made available on home platforms, the simultaneous release, in which cinematic and home releases are concurrent, the straight to video release, whereby a film is not exhibited theatrically, and the Internet release, in which a film is released exclusively online.⁵⁷ However, the immaturity of Chinese film distribution is reflected in the lack of clear norms and standards with regards to release windows. In fact, it was not until 2019 that members of the China Film Producers Association and China Film Distribution and Exhibition Association jointly formulated and signed the 'Convention on the Release Window Period for the Entry of Films into VOD Cinema Chains and VOD Cinemas'⁵⁸, which came into effect as of April 16 2019. The Convention stipulates that the release period of VOD films should be twice the period of a film's initial cinematic release, which is determined by the film's copyright holder(s). Thus, to give an example, if a film's first

⁵⁷ Normally in Hollywood, the standard release process sees a movie first released in theatres (theatrical window), then, after approximately 16 and a half weeks, it is released to VHS and VOD services (entering its video window). After an additional number of months, it is usually released to Pay TV, and approximately two years after its theatrical release date, it is made available for free-to-air TV.

⁵⁸ in Chinese 关于影片进入点播影院、点播院线发行窗口期的公约

round cinematic release period was a months and a half, the window period for the film's VOD release would stand at three months. If a film is not screened in the cinema, its cinematic schedule was deemed to be zero months, meaning that the window period for the film's VOD release would equally be zero and the film could enter VOD exhibition straight away.

However, from 2010 to 2016, the window period for releasing Chinese films was not clearly defined. The length of a given film's release period thus depended on the individual film's background and resources. This led to a profit-oriented negotiation game between distributors and exhibitors, and between online and traditional distribution. A further upshot of the lack of standards and regulations was the rise of piracy, which adversely effected the popularity of straight to video releases in China.

The impact of piracy has resulted in a contraction of the home video release window as distributors attempt to minimise the impact of pirate copies on official DVD/video sales. The continuous shrinkage of the release window has also encroached upon a film's cinematic exhibition window, thus impacting the revenue of the cinema chains.

With the rise of VOD platform and the development of the online distribution, the threat of piracy has been somewhat alleviated. This is largely due to the breakthrough of high-definition technology that produces ultra-clear picture quality that cannot be replicated by the pirates. The convenience, accessibility and competitive pricing of VOD and streaming services has also led to a decrease in piracy, as users no longer feel the need to acquire media illegitimately, as this media is now increasingly at their fingertips. In addition, a number of VOD giants, Internet companies and government regulatory authorities, have worked together to crack down on illegal downloading, censoring video websites that broadcast copyrighted material, thus consolidating the legitimate status of authentic and verified online sources.

However, VOD service providers are actively striving for new ways of expanding online distribution and exhibition, and one of the perceived ways of achieving this is by reducing the cinematic release window and standardising the simultaneous release approach. This will inevitably intensify the competition between online and traditional cinema spectatorship.

Yet, with online broadcasting platforms becoming increasingly important and profitable as a mode of distribution and exhibition in China, it seems somewhat redundant to suggest that online forms of cinematic distribution and exhibition should make way for more conventional modes of theatrical distribution and exhibition, that continue to be dependent on release windows for higher revenues.

3.4.5 Modes of Distribution

With regards to finance, there are four main distribution modes: shared-revenue, buy-out, minimum guarantee and hiring/employment.

3.4.5.1 Shared-Revenue Distribution

Shared-revenue distribution refers to a pre-arranged agreement between the distributor and exhibitor with regards to the share of a given film's box-office revenue. This method means that both the distributor and exhibitor are equally invested in the success of the film and share the same risks and benefits, depending on the success of the film. In China, the share between the distributor and exhibitor typically stands at a fifty-fifty split, or sometimes a forty-sixty split in the exhibitor's favour. Most imported Hollywood blockbusters utilise a shared-revenue mode of distribution because their box-office revenue tends to be high, so both the distributor and exhibitor are willing to take the risk on such films.

3.4.5.2 Buy-Out Distribution

Buy-out distribution is a deal between the distributor and producer. Here, the distributor gives the producer a one-off payment to distribute their film. Regardless the actual box-office result, the producer receives a fixed payment which is normally made prior to completion of the film. The buy-out distribution has shifted all the risk from the producer to the distributor, so the distributor always offers a lower price to the producer. This type of distribution is common between large distribution companies and smaller studios making low budget films. The buy-out distribution model guarantees small

studios a certain amount of revenue, therefore minimising the risk. The financial resources gained from such a deal may even allow the producers to complete the film in the first place. What's more, by collaborating with a large distribution company, these low budget films have a greater chance of being exhibited cinematically.

3.4.5.3 Minimum Guarantee Distribution

Minimum guarantee distribution refers to an agreement made between a film's producers and distributors. Using this method, two or more different sharing ratios are established for the film's box-office revenue. These ratios are set according to the perceived expectations of the film's box-office success. Normally, if the box-office revenue is lower than the expected figure, the producer will share a smaller portion of the revenue. However, if the revenue exceeds the pre-agreed value, the producer is contractually obliged to share a greater percentage of the box-office revenue received.

The minimum guarantee distribution method is popular among big domestic blockbusters with high box-office expectations. Although the profit will be compromised, the distributor still welcomes the minimum guarantee distribution mode as a means of acquiring the distribution rights of larger budget, blockbuster films.

A minimum guarantee is an initial sum that is paid to the producer by the distributor irrespective of the film's box-office performance. That is to say, this mutually agreed minimum guarantee is the minimum payment assured to the producer before the film's distribution. This minimum guarantee can be a one-off payment or, more commonly, the producer will get a portion of the profits that the distributor makes, but this revenue is limited to a certain value. This means that if the revenue of the film has not reached the minimum guarantee, the producer will still have its cost recovered in full. However, the distributor will reap all of the profit of any additional income after the minimum guarantee has been met (Cangyang Entertainment, 2017).

The minimum guarantee scheme generally shifts the risk from the producers to the distributors in exchange for potentially enlarged profits. While it can potentially take a long time for producers and distributors to agree on the value of the minimum guarantee, the minimum guarantee ultimately suggests that the producers have less

ambitious expectation of a particular film. However, the minimum guarantee system can often incentivise distributors to put more effort and resources into promoting the film in an effort to exceed the threshold of the minimum guarantee and make greater profits. In the Chinese film industry, producers invariably utilise the minimum guarantee system, as Chinese distributors tend to be more powerful and have greater resources. It is therefore easier for the distributors to lure larger audiences through large-scale promotion campaigns that hype the film regardless of its actual quality.

The first minimum guarantee agreement was made by the Huayi Brother in 2013, guaranteeing them a minimum return of RMB 300 million (USD 46.9 million) on the film *Journey to the West: Conquering the Demons* (Stephen Chow, 2013). The following year, the CFG offered RMB 350 million (USD 54.9 million) for the distribution rights for *Breakup Buddies*, before finally going on to procure RMB 1.17 billion (USD 182 million) in box-office revenue. Similarly, Bona made RMB 63 million (USD 9.8 million) from *The Continent* (HAN Han, 2014), which had a modest minimum guarantee of under RMB 350 million (USD 54.9 million).

The potentially lucrative nature of minimum guarantees has driven a growing number of distributor to attempt such schemes, and producers have raised their minimum thresholds accordingly (Guangzhou Daily, 2016). In 2016, there were eleven films distributed under the minimum guarantee scheme and six of them had a minimum guarantee set at more than RMB 1 billion (USD 156 million). Some films have even received minimum guarantee distribution offers before production has started. This was the case for the film *Wolf Warriors II* (WU Jing, 2017), which was offered a minimum guarantee of RMB 800 million (USD 125 million) by Beijing Culture. Additionally, a minimum guarantee of RMB 300 million (USD 46.9 million) was offered to the film *Miss Partners* (ZHANG Taiwei, 2015) by Hengye Films prior to the beginning of production. It is worth noting that *Wolf Warriors II* recorded revenue in excess of RMB 5 billion (USD 854 million) in 2017, making Beijing Culture an unprecedented profit.

Although some minimum guarantee distributions have made astronomical profits, in 2016, nearly half of the films under this scheme failed to reach their minimum revenue, causing losses for the distributors. Only four of those eleven films achieved the minimum revenue, namely *Time Raiders* (Daniel Li, 2016), *Chongqing Hot Pot* (YANG Qing, 2015),

Never Gone (ZHOU Tuoru, 2016), and *The Mermaid* (Stephen Chow, 2016). Some of the films that failed to reach their minimum guarantees even originated from popular IPs or had star casts. Indeed, despite receiving a RMB 1 billion (USD 156 million) minimum guarantee from the distributor, the film *League of Gods* (Koan Hui and Vernie Yeung, 2015) only made RMB 284 million (USD 44.37 million) at the box-office. Similarly, Hengye Films' *Sweet Sixteen* (Cho Jin-Kyu, 2015) made only RMB 156 million (USD 24.375) at the box-office despite its minimum guarantee revenue being set at RMB 400 million. This was also the case with the high-profile film *Miss Partners*, which received a minimum guarantee of RMB 300 million (USD 46.8 million) from Hengye Films, but only generated RMB 81 million (USD 12.7 million) in box-office revenue.

As LIU Deliang from Xinyuan Zhiku argue, the minimum guarantee system has emerged from the competitive nature of the Chinese film market. Due to the fact that the scheme can be implemented at the very early stages of production, or even before production has started, the producer can minimise risks and ensure their project gets completed. The producers can also receive sufficient capital to fund future projects. In the highly competitive environment of the Chinese film market, it is important for producers to have continuous cycle of cinematic products available on the market. At the same time, the distributor can also use the minimum guarantee scheme to secure the distribution rights to certain films in the early stages of production, allowing them a greater amount of time to prepare the promotion of its forthcoming release. Within a healthy and competitive market environment it is natural to have both failures and success under such a scheme (Lu & Deng, 2017).

However, a certain level of caution is required when entering into the minimum guarantee scheme, as such schemes could ultimately undermine the artistry of the Chinese film industry. Such schemes incentive profit-making and when producers are driven solely to make films that guarantee a certain level of financial income, the originality and creativity of said films could be compromised. The minimum guarantee system may also encourage producers to cut costs having already received a fixed, minimum amount of revenue. Receiving this pre-agreed revenue might also de-motivate filmmakers, again undermining the quality of the cinematic product. On the other hand, the pressure that the minimum guarantee can put on distributors may see them resort

to underhanded tactics in order to ensure the film is popular. This could lead to bias and/or misleading promotion that misrepresents the film being advertised. Such tactics may deceive viewers and create acrimony towards the Chinese film industry more broadly.

3.4.5.4 Hiring/Employing Distributors

By hiring/employing distributors, producers pay distribution companies a fee to distribute and promote their films. This traditional distribution model is utilised by many low-budget domestic films. Normally, the distribution agency fees range from about RMB 200,000 to 1 million (about USD 31,250 to 156,250), but with flexible pricing according to the specific needs and conditions of the film.

3.5 Growing Pains within Chinese Film Distribution

Between 2010 and 2016, developments within the distribution sector of the Chinese film industry exposed to a number of issues currently plaguing contemporary distribution practices. As stated previously, the distribution sector is widely considered to be the weakest link in the industry chain, and the reasons for such claims can be largely attributed to the following three key aspects:

3.5.1 The Homogenisation of Distributed Films

In order to ensure profitability, distributors tend to prioritise the commercial potential of a given film over its aesthetic or thematic quality, thus ensuring a good financial return in the short term. Yet, regardless of their commercial appeal, such films seldom contribute to the artistic development of Chinese cinema. The commercial orientation of the distributors thus significantly drives producers to make more commercial cinema to meet the requirements of the buyers (i.e., the distributors). This lack of diversity also affects the exhibitors, as the distributors can only offer them a limited variety of films to screen at the cinema. Ultimately, the entire Chinese film industry gets filled with homogenised cinematic products, which will inevitably undermine the long-term health of the industry,

However, blame does not lie exclusively at the feet of the distributors. The pursuit of profit is natural for any enterprise operating in the market economy, and the distributors only follow market trends and the demands of the audience. The issue is more systemic, developing from the near oligopoly within the film distribution sector, and the lack of small of and independent distributors and exhibitors. Large enterprises prioritise commercial returns and only big budget films with high potential box-office returns can fulfil such requirements. This, naturally, limits the audiences' access to smaller budget artistic films, as such films are deemed financially risky by both distributors and exhibitors. If a greater number of more specialised distributors and exhibitors existed in China, the films available to Chinese audiences could be more diverse, which could potentially make the Chinese film industry healthier.

In recent years, Chinese domestic cinema has become increasingly homogenised with the rise of interchangeable films that prioritise star casts and special effects over a well told story. Indeed, it has become increasingly apparent that certain films were made to merely capitalise on market trends, with little consideration given to their artistic quality. An upshot of this market-driven cinematic approach is an increasing sense of *déjà vu* when attending the cinema. This can be seen in spate of nostalgia-infused films released in the 2010s, these include *The Bright Eleven: Old Boys* (XIAO Yang, 2010), *You Are the Apple of My Eye* (Giddens Ko, 2011), *So Young* (ZHAO Wei, 2013), *My Old Classmate* (GUO Fan, 2014), *Fleet of Time* (ZHANG Yibai, 2014), *Forever Young, Gone with the Time* (SUN Hao, 2015), *The Left Ear* (SU Youpeng, 2015), *Yesterday Once More* (YAO Tingting, 2016), *Never Gone*, and *Sweet Sixteen*, etc.

Such films invariably rely on popular stars to carry them, given the rise of celebrity culture in China. Although these films often lack artistic merit, they nevertheless tend to perform well at the box-office. Consequently, distributors are keen to acquire the rights to projects with stars that already have a large, pre-existing fan base, thus guaranteeing the film a certain level of box-office appeal straight away.

3.5.2 Scheduling Clashes

Although there are several film seasons in China, similar to western countries, each of the seasons is shorter due to shorter amount of annual leave entitled under Chinese labour law.⁵⁹ Therefore, new film releases tend to be concentrated within a relatively short time period, and clashes between highly anticipated new releases are common. Meanwhile, the aforementioned issue of homogenisation escalates the competition within the schedule because it becomes increasingly difficult to differentiate one film from others, and audiences tend to choose only one amongst a few similar films during the holiday season. Distributors sometimes have to adjust a film's release date at very short notice in order to reduce the negative impact from schedule clashes with similar films, which can prove chaotic for the exhibitor who then have to rearrange the schedule. Such short notice release date adjustments not only have a negative impact on ticket pre-sale and promotion, but can also sour the relationship between the distributor and exhibitor.

While, generally speaking, online distribution has had a positive effect on film distribution in China, it has also introduced a number of issues and complications. First, Internet-based distributors have more effective methods of selecting high-grossing box-office movies than their traditional counterparts thanks to big data analysis, which grants them access to a huge amount of audience information, allowing them to make more educated predictions regarding potential box-office hits. This analytical approach to distribution can minimise risk by more accurately predicting box-office outcomes, information that can then be used to negotiate with producers, allowing distributors to acquire more beneficial distribution rights, whether that be in the form of a minimum guarantee contract, a buy-out or otherwise.

However, this form of big data analysis has swung the information balance between the distributor and producer in favour of the former, meaning that greater levels of risk have now been passed to the producers. Therefore, the conventional balance of power between the producer and the distributor has been disrupted, and new rules need to be

⁵⁹ For further details on Chinese annual holidays and their association with cinema, see the Exhibition Chapter.

established to ensure a sense of equilibrium is maintained between producers and online distributors.

Furthermore, online distribution currently lacks relevant regulation. As online distributors can deliver films directly to their audience, bypassing the exhibitor, they now have a great level of control with regards to film selection and, ultimately, a greater level of industry power. However, this new level of power potentially poses a threat to the open and competitive nature of the Chinese film market. It is thus the task of regulators to ensure fairness is maintained and appropriate rules are implemented.

3.5.3 The Exaggeration of Promotion

Exaggerated promotion refers to the process of utilising fabricated news and manipulated public opinion in the promotion and marketing of a film. The scale and professionalism of such exaggerated promotion has been quite remarkable and necessary measures are needed to reduce such exaggerations. While not exclusive to online promotion, the Internet has significantly contributed to the rise of fraudulent promotion in China, and has given birth to what have been known as Internet Water Armies (*Wangluo shuijun*), ghostwriters paid to post online comments and circulate particular online content in an effort to shape public opinion.

Water Armies came to the public's attention in the early 2010s, emerging on online forums and shopping websites such as Taobao, China's eBay equivalent. In recent years, the entertainment industry has become their main battleground, where celebrity agencies and die-hard fans are willing to shell out millions of yuan to generate buzz towards a particular film or celebrity. Entertainment agencies can hire Water Army troops — ranging from a handful of people to hundreds, usually operating under the guise of online marketing companies — to bump up film ratings, become followers of a celebrity, spread misinformation or smear a rival's reputation. By using preregistered usernames, these paid users are able carry out their duties with a significant degree of anonymously and once the task is complete, they send their employers the relevant screenshots and requests payment. Sometimes, a Water Army will even initiate a mass attack on a celebrity. Additionally, Water Armies are often employed to mislead public

opinion. Indeed, with regards to a film's online marketing, public opinion can easily be swayed by user reviews and comments.

Weibo, the Chinese equivalent of Twitter, is perhaps the platform targeted most by Water Armies. For celebrities, every bit of their social media presence — followers, comments, and trending topics — can be monetised. For marketers, the platform gives them a way to reach fans and create buzz about their latest film. However, the reality is that followers can be bought, and trends can be rigged. Indeed, it is estimated that around 40 percent of the trending hashtags on social media platforms are created by Water Armies (Chen N. , 2018).

In an online post, Weibo acknowledged that despite its efforts to keep Water Armies from overrunning the platform, they face enormous difficulties in completely preventing malicious attacks by illicit users/businesses. Weibo even went as far as stating that it is 'embarrassingly difficult' to punish such activity under the country's current Internet laws.

While manipulating moviegoers may seem relatively harmless, Water Armies are posing a serious problem for investors and marketers when it comes to accurately assessing a film or celebrity's popularity and allocating budgets accordingly. The rampant use of Water Armies has even prompted government agencies, data companies, and social media platforms to take action.

3.6 Countermeasures for Addressing the Current Issues within Chinese Film Distribution

Chinese film distribution will only be able to maximise efficiency and profitability by maintaining a close and healthy relationship with both producers and exhibitors. Accordingly, this section aims to expound upon a number of potential countermeasures for addressing some of the issues currently plaguing Chinese film distribution. It is the assertion of this thesis that a strong relationship between all chains of the film industry is essential; therefore the countermeasures addressing issues within film distribution should be designed in accordance with developments in production and exhibition.

Firstly, distributors need to explore more diverse distribution channels, which will grant greater opportunities for different genres and forms of cinema, whether art-based, social or otherwise, to gain exhibition. By expanding distribution channels, the Chinese film market could be greatly diversified. Furthermore, the Chinese film industry must capitalise on the current success of online film distribution and expand upon its potential. In order to do this, producers and the exhibitors need to better integrate the Internet into their business models. This is also true of conventional film distributors, and it may prove beneficial for conventional film distributors to collaborate with online distributors to maximise a film's profitability.

Secondly, the film distribution sector is in need of more stringent regulation and the state must impose more policies and measures to maintain competition and integrity within the distribution stage. Reforms within the distribution mechanisms have become a necessity, reforms that assist in creating greater diversity within the film market and those that standardise the distribution process. Reforms are also necessary to improve the efficiency of the market and balance resource allocation, which will ultimately make the market more dynamic and provide the audience with a greater variety of cinema. However, all film distribution reforms should be implemented in conjuncture with reforms to production and exhibition to allow for greater flexibility and fluidity between the three key stages of the film industry.

Thirdly, film marketing should be more focused and specialised, which will allow the promotion process to become more professionalised. Distributors should strive to get involved at the very beginning of a film project, where possible. This will allow them to establish a solid marketing strategy and schedule resources. Doing so will result in more product-specific marketing and promotion that capitalises on the unique characteristics of the film being distributed. This individualised form of promotion may potentially allow marketing to be more impactful and therefore generate more interest for the film being advertised.

Fourth, it may prove constructive to divide the distribution market into different geographical zones based on, for example, their local cultures, specific audience preferences or the local economic development. This will allow for more audience-specific marketing. Additionally, it may not prove pertinent to distribute some low-

budget films with limited marketing fund nation-wide. Instead, it may prove to be a better use of resources to focus on more geographically targeted marketing, in which the film is promoted and exhibited in specific areas and for specific audiences for whom the film's cultural content is most relevant. In order to target such specific audiences using this selective distribution approach, big data analysis is a necessity in order for both the distributors and exhibitors to learn which audiences might be most receptive to a certain type of film.

Such forms of selective distribution and exhibition are not unprecedented in China. For example, the film *Just for Fun* (LU Weiguo, 2012) embraces the regional culture of the Henan Province, utilising the area's regional dialect, regional performers; indeed, the film's leading actor YUE Yunpeng hails from the Henan province, and the film was also supported by the local government. Half of the film's national box-office revenue subsequently came from cinemas in Henan province and, generally speaking, local audiences were more receptive to the film.⁶⁰

Not only for China but also the other nations. For example, the Indian film, *Three Idiots* (Rajkumar Hirani, 2009), also demonstrates the potential of targeted distribution. After the film had made just RMB 7.4 million (USD 1.2 million) in its opening week, largely due to it clashing with domestic blockbusters such as *The Flowers of War* (ZHANG Yimou, 2011) and *Flying Swords of Dragon Gate* (Hark Tusi and ZHANG Zhiliang, 2011), *Three Idiots* was largely removed from most Chinese cinemas. However, the Broadway Circuit chain, owned by Edko Films Ltd, *Three Idiots*' Chinese distributor, still maintained around three screenings of the film per day. After six weeks, the film's box-office figures had risen to RMB 14 million (USD 2.9 million), making *Three Idiots* the highest grossing Indian film ever released in China.⁶¹

3.7 Chapter Conclusion

In this chapter, I have discussed the main characteristics of the Chinese film distribution sector between 2010 and 2016, and introduced the reader to its various operational

⁶⁰ <http://www.cbooo.cn/m/594047>

⁶¹ <http://www.cbooo.cn/m/475099>

strategies. The chapter has also exposed and analysed several notable issues that have come to light within Chinese film distribution, and briefly explored what potential countermeasures could be employed to address these issues.

The distribution sector of the Chinese film industry is still in the early stage of development. Its overall operational structures are still somewhat immature and are in need of further optimisation so that the industry's distribution capacity can increase. Driven by market profits and appraised by box office records, the Chinese film industry has entered an period in which the pursuit of quick success and instant profits has taken precedence over artistic pursuits. Consequently, major theatre chains tend to only accept movies made by big names within the industry or those deemed to have a good chance of generating a profit. Chains are much more reluctant to screen low-budget movies that may be only appeal to a niche audience as said films are unlikely to generate profits.

Although the introduction online distribution has helped diversify the Chinese film industry somewhat since its introduction in the early 2010s, providing new opportunities for alternative filmmakers to get their films seen by a larger audience, online distribution still has room for further developments. Indeed, online distribution is not currently doing enough to support artistic experimentation and more needs to be done to establish a sustainable environment that is conducive to fair competition for all types of cinema.

China's film distribution system also requires a greater level of openness, distributors need to improve the sector's capacity to release a broader range of films in both the domestic and overseas markets, distributors also need further cultivate multimedia channels of distribution, and they need to encourage further investment into the distribution sector.

4. Exhibition

4.1 Main Findings

- *Exhibitors currently hold a disproportionate amount of power within the Chinese film industry. Exhibitors control the release schedule of all films screened in China, granting them significant influence over the box-office success of any given film. Jurisdiction over scheduling consequently grants exhibitors additional bargaining power with distributors and producers, resulting in exhibitors typically taking the lion share – approximately 50% - of all box-office revenue earned by films exhibited in China. The exhibitor's stake is thus roughly equal to that of the producer's and distributor's combined.*
- *Between 2010 to 2016, the Chinese film exhibition sector underwent considerable technological development. In order to cater for the increasingly diverse demands of contemporary audiences, theatres have sought to offer a wider variety of viewing experiences.*
- *After 2015, online ticketing became the primary method of selling movie tickets in China. The success of online ticketing was aided by a number of large government subsidies offered to ticket vendors. However, since 2016, the number of these subsidies have substantially declined.*
- *Chinese film exhibition remains in somewhat of an undeveloped state, and the sector's almost exclusive focus on box-office profitability will ultimately do the Chinese film industry more harm than good.*
- *Another significant trend within Chinese film exhibition has been the sectors' marketisation. Since the introduction of cinema chains in 2001, mergers and acquisitions have occurred with increased frequency. Horizontal integration became increasingly common between 2010 and 2016, ultimately resulting in 48 different cinema chains operating in China by the end of 2016. However, the rate of expansion and the profits of these newly emergent cinemas has diminished when compared to the introductory years of cinema chains in the early 2000s. This is, in part, due to increased rental costs and intensified competition.*

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- *Within contemporary Chinese cinema, a discrepancy exists between the number of films produced and the number of films released cinematically. Beyond the still prevalent issue of censorship, this divergence can be attributed to the exhibitors' dominant position within the industry chain. Consequently, exhibitors dictate which films are granted cinematic exhibition, these invariably being films deemed to have significant market potential. This issue is compounded by China's current lack of adequate exhibition facilities. Broadly speaking, cinemas in China need to increase the number of screens available in each theatre in order to address the problem of tight scheduling. Cinemas with an average of eight screens or more are better suited to accommodate the demands of the contemporary Chinese film industry and its fast-paced exhibition schedule.*
 - *The efficiency of Chinese cinemas can determine the success of a given film. In China, it is widely assumed that greater levels of screen time within the exhibition schedule equates to greater box office revenue. However, only the top ten cinema chains out of total 48 can claim to achieve high operation efficiency.*
 - *Although the Chinese government oversee all aspects of Chinese film industry, the exhibition sector can be regarded as the most open sector within the industry chain.*
 - *The state would, however, supervise the marketisation of Chinese film exhibition, a process that would facilitate the internationalisation of the Chinese film industry.*
 - *The 'domestic film protection month', while never being an official governmental measure, has been upheld by almost all of China's cinema chains.*

4.2 Chapter Introduction

4.2.1 Scale of Cinema Chains and Cinemas in China

Since the introduction of cinema chains in 2002, both the number of theatres and the number of cinema screens has grown significantly. China had less than 20,000 cinema screens in 2013. Yet, within only three years, China had surpassed the U.S., which in 2016 had 40,759 indoor screens and drive-ins. According to the national film bureau

(Watt, 2017), the number of Chinese cinema screens stood at 41,179 as of December 31, 2016, see Figure 17 (Liu H. , 2017).

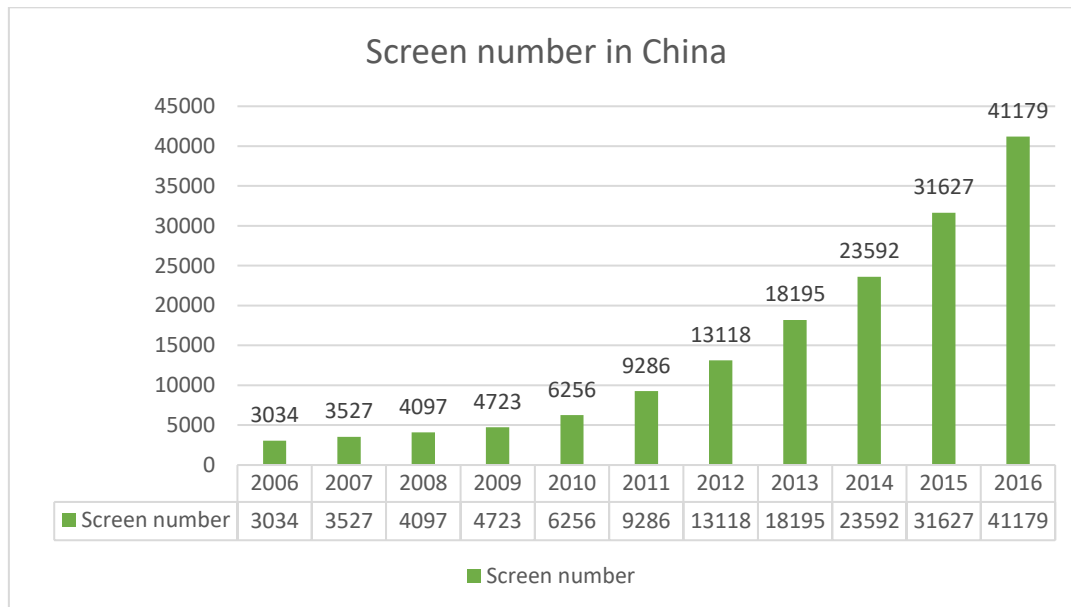


Figure 17 Screen number in China (2006-2016) ⁶²

By the end of 2016, there were 7,857 cinemas operating in China – the revenue range of these cinemas can be seen in Figure 19. However, between 2010 and 2016, the number of films screened in China remained consistently lower than the number of films produced (see Figure 18). In 2010, 526 domestic feature films were made in China but only 141 were screened in cinemas. Likewise, in 2016, only 415 films out of a total 772 feature films made in China were shown in cinemas (see Figure 18). Although the number of cinema screens in China has increased exponentially in recent years (see Figure 17), cinemas are still reluctant to dedicate screen time to low budget or art films, ultimately limiting the diversity of the Chinese film industry.

In Figure 18, the extent of the discrepancy between the number of films produced and the number of films released cinematically is made glaringly apparent. According to conventional wisdom, the main reason for this discrepancy is censorship. The assumption being that there were many films that could be screened in the cinemas

⁶² Liu H. , 2017

because they did not receive the relevant release permission by SAPPRFT. However, there are other reasons for this phenomenon, which I will discuss later in the chapter.

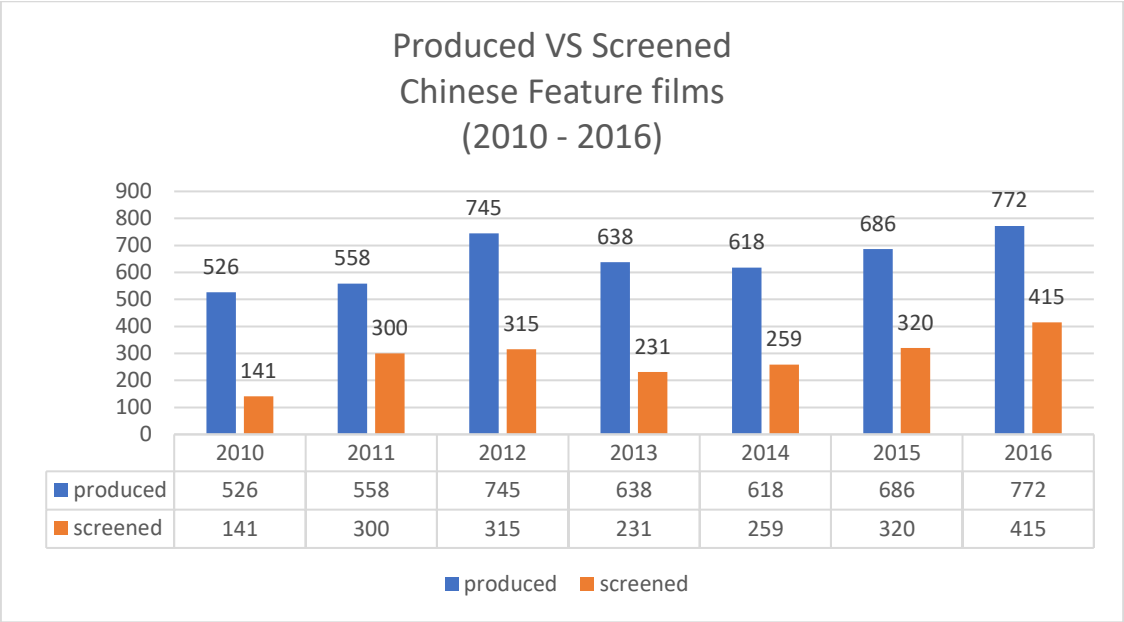


Figure 18 Produced vs Screened, Chinese domestic feature films (2010-2016)⁶³

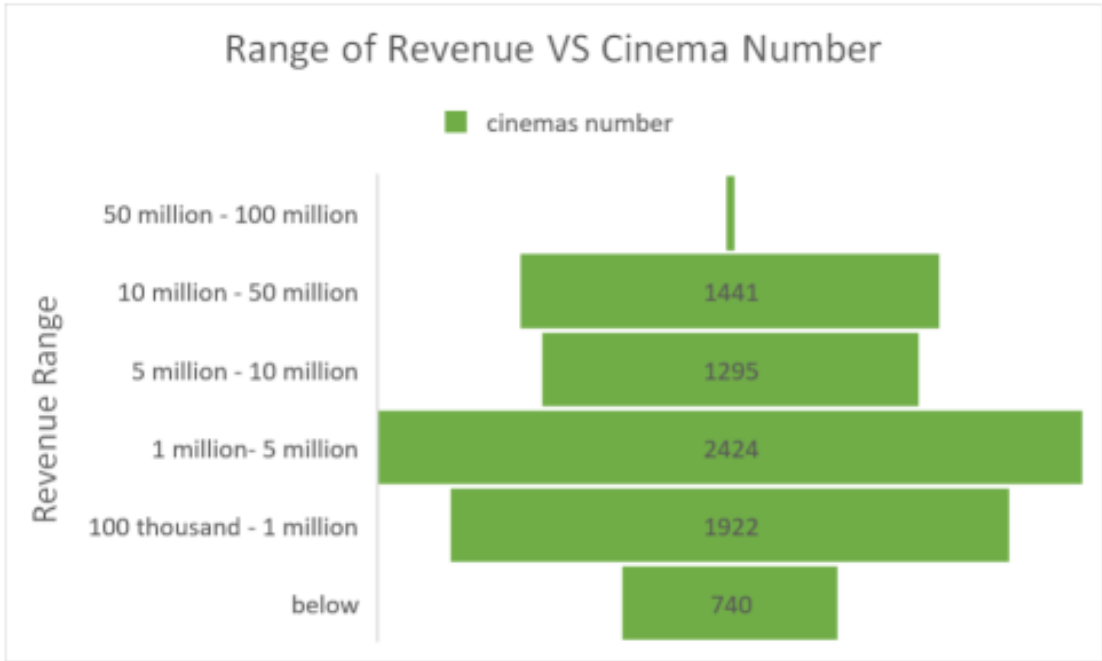


Figure 19 Range of Revenue VS Cinema Number

⁶³ China Film Association: *The Research Report 2017*, 5.

4.2.2 Screen Types

There are six varieties of screen types in China; namely 2D; 3D; IMAX; IMAX 3D; CHINA GIANT SCREEN and CHINA GIANT SCREEN 3D.⁶⁴ The most popular screen type is IMAX 3D, which generated box office revenue of around CNY 1.8 billion (USD 0.28 billion) in 2016. The CHINA GIANT SCREEN 3D made CNY 491 million (USD 77 million) that same year, making it the second most popular screen type.

Details of box-office revenue achieved by the different screen types in 2016 (China Film Association & China Federation of Literary & Art Circles Film Centre, 2017):

2D: achieved 15.8 billion RMB (USD 2.5 billion), 525 million people

3D: achieved 27.2 billion RMB (USD 4.25 billion), 800 million people

IMAX: achieved 56.17 million RMB (USD 8.77 million), 1.13 million people

IMAX 3D: achieved 1.8 billion RMB (USD 0.3 billion), 33.61 million people

China Giant Screen: achieved 78.30 million RMB (USD 12.23 million), 2.21 million people

China Giant Screen 3D: achieved 491 million RMB (USD 76.71 million), 12.34 million people

4.2.3 Percentage Share of the Box-Office

In China, exhibitors typically take a greater share of box-office revenue than either producers or distributors. As regulated by the 'Box-Office Revenue Sharing Practice', all cinema chains are required to record their box-office takings using an electronic ticketing system. This process is overseen by the Special Fund Office (SFO) of the State Administration of Radio Film and Television of China (SARFT). The SFO is tasked with collecting records from cinema chains, and this accounting information used to share box-office revenue between the various stakeholders, i.e., the producers, distributors and exhibitors.

⁶⁴ The China Film Giant Screen (CFGs) is a Chinese premium large film format company. The company was previously known as the DMAX, with the name also referring to the film technology. It has been described as a competitor to IMAX Corporation and its IMAX film format. The company is owned by China Film Group Corporation.

Customarily, 3.3% of the net revenue is taxed by central government and 5% is allocated to the SFO's 'National Fund for Film Industrial Development'. This fund is designed to financially support various aspects the Chinese film industry, such as the building and upgrading of cinema facilities, translating films for minority audiences, and subsidising digital cinemas in rural areas, amongst other things (Shenyi, 2017). Additionally, between 1-3% of the remaining revenue is paid to the China Film Group as agent fees. The remaining 91.7% of the revenue is then divided between the producers, distributors and exhibitors, of which the latter typically takes around 57%, making them the largest beneficiary.⁶⁵ The residual 40-42% (normally 40%) will then be shared between the distributor and producer. In reality, however, because of the fierce competition for space within the screening schedule, many film distributors will pay an additional 3-5% share of their revenue to the various cinema chains in order to acquire more scheduling time for their films.

It is thus typical for exhibitors to receive around 57% of the box office revenue taken from domestic films exhibited in China, a figure that is significantly higher than the revenue earned by exhibitors in the other industries. However, in real terms, profits are not as high as might be expected due to a variety of supplementary issues, which we shall explore later in the chapter.

However, given the value attributed to box-office revenue in China, the cinematic release schedule, exclusively controlled by the exhibitors, has become a determining factor in the success of a given film. This power to determine the success or failure of a given film has provided Chinese exhibitors greater bargaining power with distributors and producers. Such is the extent of the exhibitors' power over the film industry, that film producer FANG Li had to beg exhibitors to grant WU Tianming's film *Song of the Phoenix* (2013) additional screen time. This episode thus reflects the problematic power dynamics inherent within the contemporary Chinese film industry.

In this chapter, I will analyse contemporary exhibition practices within the Chinese film industry. Here, I will highlight some of the key trends and developments within the

⁶⁵ This model applies only to domestic films, however. Hollywood imports and co-productions alternatively split their revenue 25 percent and 40 percent respectively, and distributors and theatres then split the rest of the revenue by 91.7 percent.

exhibition sector between 2010 and 2016, examine the main players within Chinese film exhibition, and explore their modes of operation, facilities, and practices. I will also engage with a number of pertinent issue with regards to Chinese film exhibition, such as film scheduling and ticket pricing. Finally, I seek to engage with the current issues that have come to light in contemporary Chinese film exhibition and propose potential solutions to these problems.

4.3 Exhibition Practices in the Chinese Film Industry from 2010 to 2016.

4.3.1 The Development of Cinema Chains in China

The development of cinema chains can be considered one of the central areas of development within contemporary Chinese exhibition practices. The increase in chains stemmed from China's market integration and increasing economic openness. Since 2002, the cinema chain has experienced several stages of development; from its introduction and initial period of growth, to its stabilisation and solidification, its over-saturation and, more recently, to a period increasingly characterised by economic merges and acquisitions.

Multi-theatre cinemas and digital technologies have become important features of mainstream cinema chains. Between 2003 and 2016, the number of cinema chains increased 50% and with that, the number of cinema screens saw 21-fold increase. Newly opened theatres tend to house more screens than those that preceded them and a greater number of screens per cinema helps theatres reduce operation costs and strengthen brand recognition. Additionally, a greater choice of films can be offered by multi-theatre cinemas, thus benefiting audiences.

Year	Cinema Chains	Screen Numbers	New Screens year-on-year
2003	32	1923	110
2004	33	2396	443
2005	36	2668	272
2006	33	3034	366
2007	34	3527	493
2008	34	4097	570
2009	37	4723	626
2010	38	6256	1533
2011	39	9286	3030
2012	45	13118	3832
2013	45	18195	5077
2014	47	23592	5397
2015	48	31627	8035
2016	48	41179	9552

Figure 20 Correlation between the growth of the cinema chains and screens⁶⁶

However, in order to better understand the exhibition practices of the Chinese film industry between 2010 and 2016, it is necessary to first understand the infrastructures in place prior to 2010.

4.3.2 Market-Driven Exhibition/Marketisation

Since joining the World Trade Organisation in 2001, China has increasingly integrated global market practices. With this economic shift, the film industry was forced to make a number of infrastructural changes. In terms of exhibition, the State Administration of Radio Film and Television of China (SARFT) issued the 'Film Exhibition Operation and

⁶⁶ The Research Report on Chinese Film Industry 2017, p144.

Management Specification' ([2001] No. 519), which first proposed the development of cinema chains. The document emphasised notions of market-driven exhibition and sought to bolster the commercial relationship between exhibitors and distributors. As a result, ticket prices, exhibition schedules and even the types of films exhibited in China were now judged on their economic and market potential rather than on the government's ideological discretion. Some regulation was needed to ensure a smooth transition to these new market practices, as well as to protect domestic film exhibition, but said regulations ultimately sought to support market integration. These reforms were a timely response to the transforming Chinese film industry and a symbol of greater openness and commercial freedom for cultural products.

The introduction of cinema chains and the establishment market-oriented exhibition practices was just one part of the reforms made in 2002. The centralised exhibition system based on regions was also in need of restructuring in order to better suit market conditions. Consequently, exhibition practices based on commercial contracts between cinema chains and distributors were introduced.

The characteristic features of Chinese cinema chains were:

- Cinemas within a chain were built by a single consortium and were thus assets of that consortium. Alternatively, cinemas in a chain were built independently, used the same branding, assets and scheduling as a chain, but the cinema itself would not be an asset of that chain.
- Some cinema chains were built by exhibitors while others were built by joint ventures between distributors and producers.
- There were both provincial cinema chains and national cinema chains. No more than three cinema chains were allowed to establish as provincial cinema chains within a given region/area, and the minimum terms of any new joint venture cinema franchise was three years.

The first 30 cinema chains were established on 1 June 2002, of which eleven were national cinema chains and the rest were provincial (Yin, 2004, 29).

The introduction of cinema chains was made mandate by the government, which, while accelerating development, had certain upshots. Many cinema chains were originally

formed by government order, which saw local distributors and cinemas merge. Ultimately, this resulted in disorder within management and, perhaps more problematic, ambiguities in the ownership of assets. The government-driven establishment of cinema chains resulted in large inequalities within cinema chain development, with some cinemas experiencing worse box-office returns after the reform than before. Additionally, as a result of government mandate, a number of low-quality cinemas with poor facilities were built.

To improve the performance and quality of cinema chains, the government began to allow mixed ownership, including foreign stakeholders; however, the majority of stakes still needed to be controlled by either the state or domestic companies. The government would also introduce a ranking system in order to measure the quality of cinemas and monitor exhibition schedules to ensure exposure for domestic films. The opening of cinema chain to non-national stakeholders brought with it much needed investment and advancements in management techniques.

4.3.3 The Advantages of Large Cinema Chains

Exhibitors yield a number of advantages from utilising cinema chains. Multi-cinema ownership drives down operation costs and increases resilience to market volatility. Typically, the criteria through which the size of a given cinema chain has been assessed has been via either the number of screens or the number of seats.

Since 2002, mergers and acquisitions have become increasingly common. In order to minimise expenditure while maintaining brand recognition, cinema chains are typically franchised, granting organisations an increasing number of cinema screens while necessitating less capital investment.

Historically, the distributors owned the cinemas and consequently dictated which films were selected for exhibition and arranged their scheduling. More recently, however, the dynamics of power have shifted, and it is now the cinema chains that select films for exhibition. A given chain may also own a variety of theatres catering to different audiences and tastes. Chains thus collect information from all their theatres, granting

them better understanding of the market, allowing them to select the most potentially profitable films and negotiate with distributors on the price of these films.

Theatres can serve as assets used by organisations to secure loans or investment. At the same time, theatres provide a space through which organisations can capitalise on ancillary markets such as food, via concessions stands and/or restaurants and other forms of entrainment like arcades.

Financial institutions and consortiums play an important role in providing capital for the purchase and/or development of cinemas. Indeed, two large state-owned distributors acquired cinema chains in order to minimise risk and improve and develop their cinema chains.

Within a given location, increased competition between chains ultimately benefits the consumers. Multiple competing franchises improve market conditions as these rival chains need to continuously maintain and/or improve their facilities, marketing and services in order to remain competitive.

Internally, the integration of multiple cinemas within a chain serves to reduce operation costs. Resources from different cinemas can be shared across different sites within the same chain. The reduced operation costs may also attract new cinemas to join the chain. Cinema chains are also interested in building alliances in order to further consolidate their market share and further reduce operation costs for more profits.

Competitive cinema chains also require high operational efficiency in order to control the cost for customised service such as small/niche theatres, flexible schedules and peripheral services such as food and beverage. Therefore, cinema chains can offer a wider range of cinematic experiences to audiences, making cinema attendance more appealing than the varying forms of home-entertainment.

Typically, multiple large exhibitors compete for the right to screen high profile films, which gives the distributors some degree of bargaining power. Exhibitors collect comprehensive audience information, which is then utilised by distributors and producers to identify trends within the market and produce films that best suit audience needs.

National franchises are also better equipped to utilise the Internet in comparison to independent theatres. One observable way in which exhibitors directly employ the Internet is via online ticketing. However, audiences who purchase tickets online typically prefer to attend their local theatres. Therefore, cinema chains with a larger number of theatres distributed nationwide are better equipped to implement such a facility, making chains a more attractive and suitable proposition for online ticketing companies.

Online ticket sales can offer significant benefits to cinemas. Sales can be boosted if ticket purchases can be made without spatial and temporal limits. Sales data and information regarding audience preferences can be recorded and are invaluable for cinemas, allowing them to improve their services. Cinemas that do not use Internet ticketing services are quickly getting left behind. Thus, the online facilities have made it increasingly more profitable for independent theatres to merge with larger chains.

There are many examples of successful cooperation between large cinema chains and online companies. Baidu, for example, has aligned with the Guangdong Dadi cinema chain. Baidu is responsible for selling a significant portion of theatre tickets via its Nuomi application. Baidu and Dadi have introduced a membership scheme and Baidu have also been able to provide additional services and products sold alongside cinema tickets. Similarly, Alibaba has aligned with the Guangzhou Zhujiang cinema chain and offer a similar membership scheme. The cooperation between cinema chains and online companies offers further benefits to audiences. Larger companies offer incentives such as discounted cinema tickets or free food and beverages can be bundled into selected purchases and offers.

A further external benefit for larger cinema chains comes in the form of finance. In recent years, investors have taken an increasing interest in the Chinese film industry. In January 2015, one of the largest cinema chains in China, Wanda Cinema, became the first national theatre chain to be listed on the stock market. The IPO of Wanda raised 2 billion RMB, used to renovate theatres and upgrade facilities (Yuan, 2015). The financial success of Wanda Cinema has encouraged other cinema chains to follow suit, and fulfil the criteria to be eligible for IPO, SMI, and/or CNG. Guangzhou Jinyi and many other cinema chains have publicly expressed their desire launch into the stock market in the foreseeable future.

Another advantage for larger chains is the support offered by the government. In 2013, the government established funds to aid the development and maintenance of digital cinemas in rural areas. The government also offers incentives for private investors that develop cinema in more provincial regions. Furthermore, in May 2016, the government abolished regulations limiting the larger chains' ability to takeover independent cinemas. This means that the acquisition of independent cinemas is now much quicker and easier.

4.3.4 Cinema Facilities and Viewing Experience

Although recent developments in home entertainment have been seen as threats to the traditional cinema attendance, the number of cinemagoers continues to increase for most film markets thanks to improved exhibition facilities. The availability of bigger screens, better scheduling, more comfortable seating, improved sound and picture quality and a range of ancillary services have kept consumers coming back to the cinema (Eliashberg, 2005).

Improved exhibition technologies have also enhanced the audience's viewing experience. The increasing number of films that rely on a large amount of special effects has necessitated the need for advanced exhibition facilities such as 3D and IMAX. Such is the extent that these modes of exhibition have become common practice, producers and distributors now expect most cinemas to be equipped with such facilities in order to be able to give the audience the original experience designed by the filmmakers.

Following the massive success of IMAX in China, the China Film Group Corporation launched a new premium film format system, entitled the China Film Giant Screen (CFGS). The company was previously known as DMAX - its name referencing IMAX technology - has been described as a competitor to the IMAX Corporation and its IMAX film format (Clifford, 2012). The format was put into commercial use in 2012 and there are currently 133 China Film Giant Screens in operation in China, and this figure is expected to increase over time.

The CFGS format was developed by the China Research Institute of Film Science & Technology and the China Film Group Corporation. It was created as an attempt to challenge the IMAX film format that had dominated the premium large film format

market until that point (Yihang, 2012). The aim was to lower costs and facilitate the development of Chinese film projection using indigenous Chinese technology and intellectual property (Shackleton, 2017).

China's first IMAX theater opened in Shanghai in 2007, and currently, around 300 IMAX theatres currently operate in Greater China. IMAX's biggest customer is Wanda Cinema Line, a subsidiary of the Dalian Wanda Group, a conglomerate owned by China's richest man, Wang Jianlin. Wanda also is the majority owner of the publicly traded AMC Entertainment Holdings chain in the U.S., another sizable IMAX partner, as well as the production company behind *Jurassic World* (Colin Trevorrow, 2015), Legendary Entertainment.

Richard Gelfond⁶⁷ acknowledged the importance of IMAX's special relationship with Wanda, which contributes about 16 percent of the company's revenue, but said IMAX is not overly dependent on it, even in China. Gelfond stated that "Wanda is one of our best partners in the world... From a branding point of view, there's no one better. But we are in business with almost all the top 20 exhibitors in China" (Pressberg, 2016).

There are currently 21 Barco Escape theaters worldwide, including two in China.⁶⁸ However, the company's CEO, Todd Hoddick, told IBT last month the company plans to open 1,000 theaters in China alone during the next few years. Furthermore, in January, Dolby Labs announced a partnership with the Wanda Cinema Line to open 100 premium Dolby Vision theaters in China within the next five years.

Beyond new screen technologies, broader digital technologies have also benefitted exhibitors. Digital film broadcasting has the potential to significantly reduce logistical costs and serves as a measure against piracy. With digital film broadcasting, there is no need for costly film shipment during which the opportunity for illegal copies to be made is more prevalent. Instead, films can be delivered digitally at low costs to remote areas without any time delay. The digitally encrypted copies increase the security of films' copyright. The number of cinemas employing digital exhibition is continuously

⁶⁷ CEO of IMAX.

⁶⁸ Barco is a Belgian firm that's one of the world's biggest display hardware and software companies.

increasing in China. By the end of 2011, more than 90% of urban cinemas had digital exhibition. In addition to exhibiting the film, digitalisation is also applied to box-office management and film marketing. Every ticket sale will be registered in the system and additional information on audiences can also be recorded by the cinema. This useful data collected by cinemas can help exhibitors to adjust the schedule dynamically in order to maximise attendance and can also be sold to distributors who use the data to improve film promotion and marketing.

4.3.5 Regional Distribution of Box-office Revenue

The economic development that has taken place in China has not produced equal patterns of development or all-inclusive growth, however. Consequently, certain areas benefit from better living conditions and more disposable income. To indicate inequality among areas, the government introduced a ranking system that divides cities into tiers based upon a number of factors. The most developed cities are grouped as the Tier 1 cities. Citizens living in more developed areas are generally more willing to spend money on leisure pursuits such as the cinema. Box-office revenue has reflected this phenomenon. As illustrated in Figure 21, Tier 1 cities, Shanghai, Beijing, Guangzhou and Shenzhen claimed one-fifth of China's overall box-office revenue in 2016. However, the total population of these four cities is less than 70 million, roughly 5% of the overall population in China. Among these four cities, the revenue generated is roughly proportional to the size of their populations (Beijing and Shanghai both having nearly 24 million residents each while Guangzhou and Shenzhen have about 12 million). However, the market in Tier 1 cities is already somewhat saturated. In 2015, Beijing had 182 cinemas with 1050 screens (21,000 residents share one screen), with each resident visiting the cinema an average of 3.3 times per year (Wang, 2016).

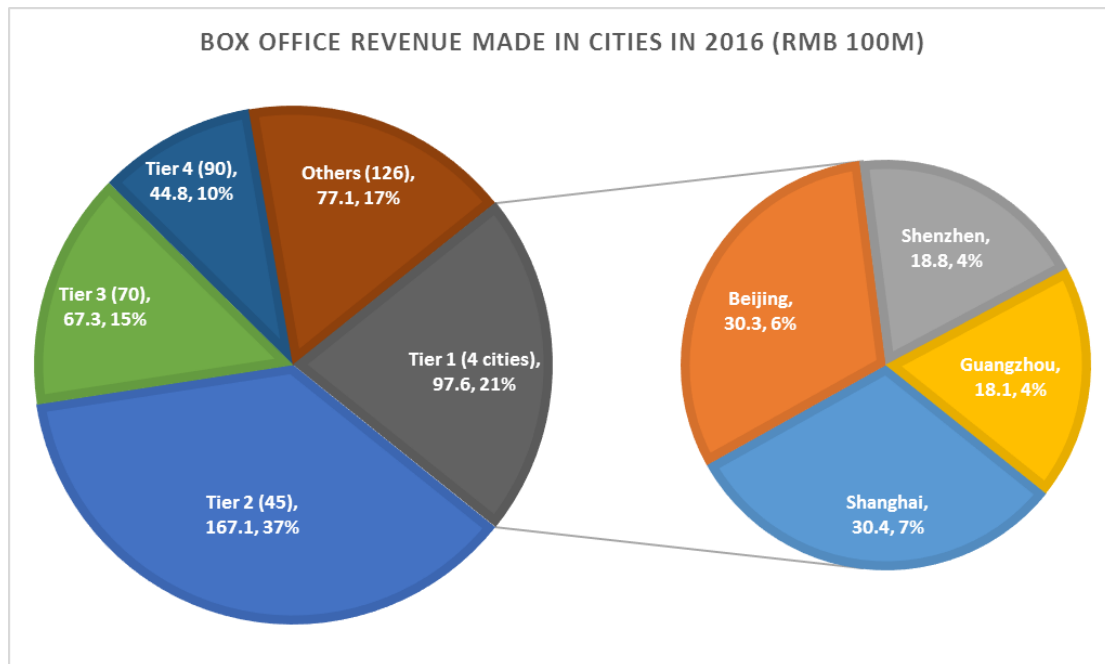


Figure 21 Revenue made in different Tiers of cities in 2016

Similarly, the market for Tier 2 cities still demonstrating some room for potential growth. However, one may argue that main market potential of this tier has already been exploited, and the market is thus likely to become saturated shortly.

The market that currently offers the greatest potential returns in terms of box-office revenue is Tier 3. Each Tier 3 city has a population of over than 1 million citizens, meaning that Tier 3 represents a potential audience of nearly 100 million citizens throughout China. In these Tier 3 cities, the average annual income has improved significantly in recent years, and living standing are increasingly rivalling those of Tier 1 and 2 cities. The exhibition facilities of Tier 3 cities, while often inferior to those of Tier 1 and 2 cities, have the potential for expansion and development that is more cost effective than for similar development in Tier 4 cities or below. Both the number of screens and visit per capita in Tier 3 cities are less than one-fifth of that of Tier 1 cities. Assuming that the market of Tier 3 cities is catching up to that of Tier 1, the total size of the Chinese film market could, at least, double. Since 2012, the competition for screens between exhibitors has increasingly shifted to Tier 3. As well as building new facilities, it is equally important for exhibitors to foster local audiences and encourage them to go to the cinema more frequently. Consequently, incentives have been introduced by the larger exhibitors to encourage cinema going in Tier 3 cities.

4.3.6.1 The Influence/Impact of Public Holidays

Before proceeding with the analysis, it is important to elucidate upon the structure of public holidays in China. In China, employees are given fewer paid holiday days than most Western countries. In the UK, for example, employees are entitled 25 days per year by law, but in China, the government grants only five days. However, China has more public holidays - twelve compared to the UK's five. In addition to these additional public holidays, the government adjusts working schedules to allow for more consecutive public holiday days. For example, if three public holidays (take Mon, Tue, Wed as an example) are granted for the National Day celebrations, the remaining two working days of that week (Thu and Fri) will be borrowed from the following weekend, thus extending the public holiday (Sun to Fri).

This system of public holidays means that most citizens have holidays at roughly the same time during the year. This serves to amplify the tourist economy during these periods and consequently, the entertainment and leisure industries, the cinema included, strive to maximise their customer base. As shown by Figure 23, about 20% of China's annual the box-office revenue is generated during the 28 public holidays (including combined weekends) alone. China's two longest public holidays, the Chinese New Year and the National Day - both seven days long - typically generate more box-office revenue than any other public holiday (see Figure 23).

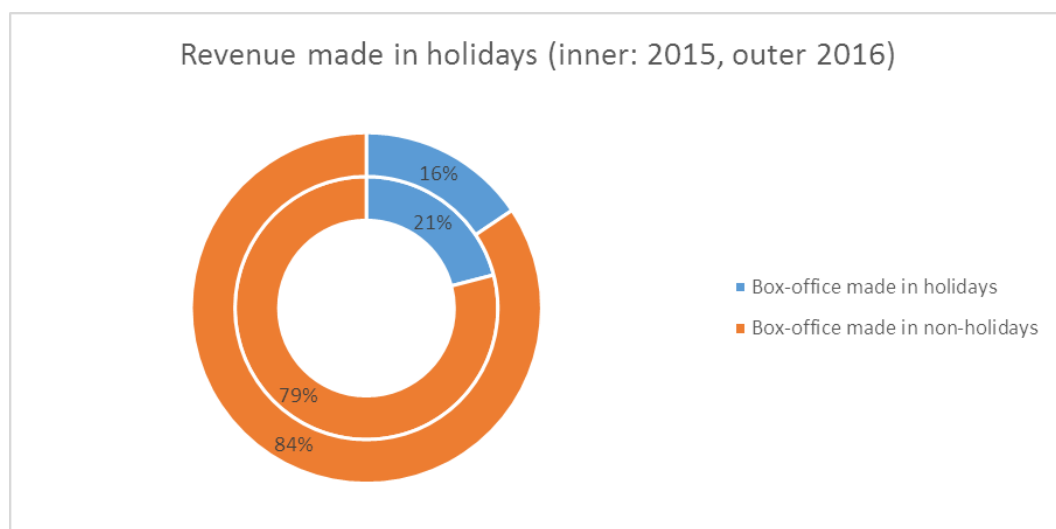


Figure 22 Revenue made in holidays in China, 2015 and 2016

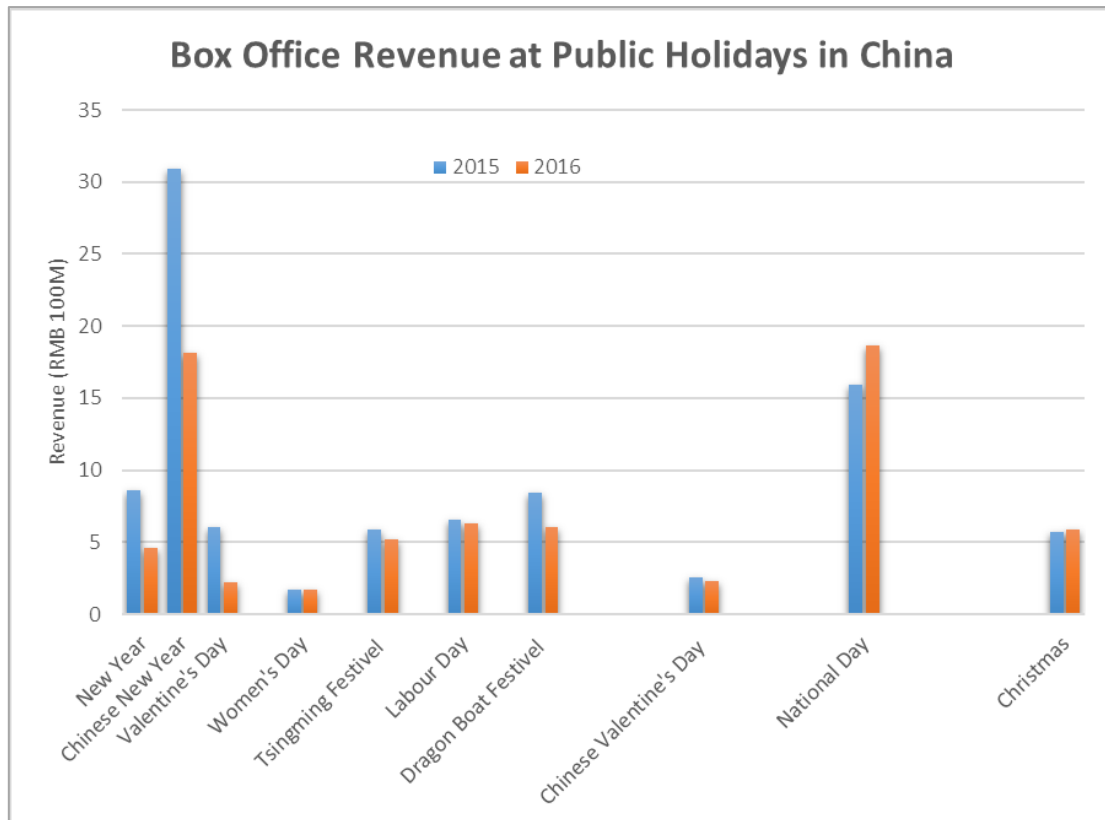


Figure 23 Revenue breakdown in different holidays in China⁶⁹

4.3.6.2 Import and Domestic Films

As shown in Figure 25, the box-office revenue taken from imported films, especially that of the United States, typically accounts for more than a third of China's annual box-office revenue (O'Connor & Armstrong, 2015). Hollywood blockbusters, in particular, habitually reap high box-office takings despite the constraints imposed by China's fixed import quotas and the blackout periods for foreign films. The blackout period typically falls during the Chinese New Year holiday season, which normally falls in the first quarter of the year, resulting in a large discrepancy in box-office revenue between the domestic and imported films during this period. This two-week ban on foreign films has helped Chinese filmmakers gain a foothold within the domestic film market and, given that the

⁶⁹ Valentine's days are not public holidays in China

Chinese New Year is one of the most popular periods of Chinese cinemagoing, record positive box-office figures (see Figure 24 and Figure 25).

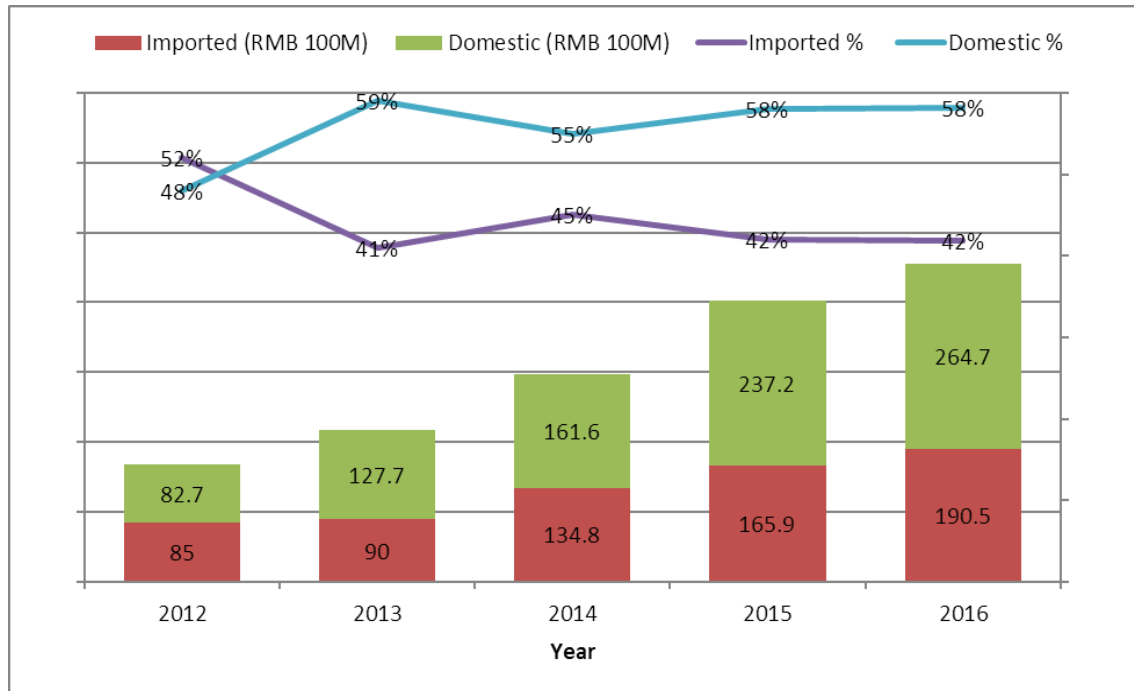


Figure 24 Revenue from imported and domestic films 2012 to 2016

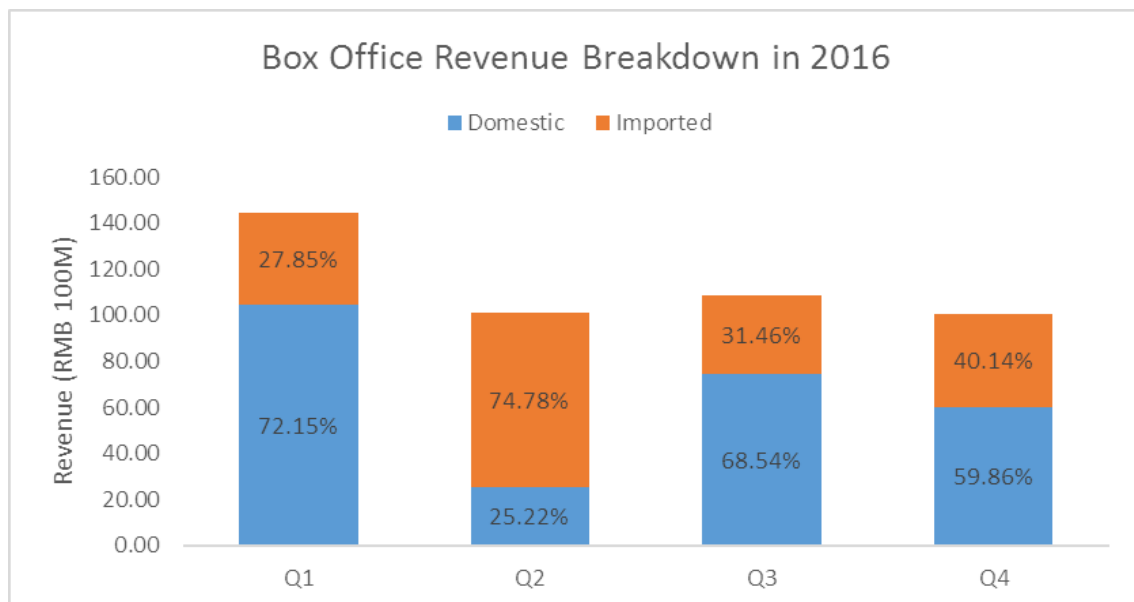


Figure 25 Revenue from imported and domestic films breakdown in quarters

4.4 The Operation of the Exhibition System

4.4.1 The Main Players

4.4.1.1 Cinema Chains

(1) Ownership diversification and cinema chains

The expansion of cinema chains holds significant benefits for the parent companies that own them. Functioning under a centralised management system, chains typically benefit from economies of scale, which often results in lower costs. Furthermore, given the fact that chains typically take a larger share of box-office revenue than independent theatres, boosted by familiar brand recognition, larger marketing budgets and their centralised locations, there had been an aggressive expansion in the number of theatres within China's main cinema chains. The government would respond to these conditions by limiting the foreign investment in China's cinema chains. This resulted in domestic companies, often from outside of the entertainment industry; investing in the construction of cinemas, making huge returns in the process.

The flow of capital from non-film-related industries has diversified China's cinema chains. The Wanda Group, for example, is a private property developer that has played a key role in China's urban renovation and development. Its modern 'Wanda Plaza' complexes house offices, shopping and leisure facilities, hotels and restaurants, and have become a central component of any cosmopolitan city. Since 2004, Chinese cities have increasingly embraced the concept of the one-stop complex unit offered by the Wanda Group. The opening of a Wanda Plaza has thus become a symbol of a city's commercial and political progressiveness. Private real estate companies, such as the Wanda Group, have a natural advantage in establishing their own cinema chains because they are already in possession of commercial property and facilities.

Consequently, an increasingly common feature of the Wanda Plaza complexes has been the inclusion of cinema facilities. The Wanda Cinema chain originally opened within the brand's own Plazas, capitalising on both the pre-existing popularity of the complexes and the reduced rental costs that comes with real estate ownership. However, as brand recognition for these cinemas grew, it wasn't long before Wanda Cinemas were being

developed beyond the conglomerate's own Plazas. The Wanda Cinemas have since become an independent business under the Wanda Group. Within the last fifteen years, the Wanda Cinema chain has opened more than 500 cinemas, far exceeding the number of Wanda Plazas. Another similar example to that of the Wanda Group is the Jinyi Cinema chain, which also sprung from the diversification of a real estate developer.

Another example of a company indirectly outside the film industry diversifying into film exhibition is the Guangdong Dadi Cinema. Dadi originally specialised in cinema construction as well as developing film exhibition equipment. However, in 2006, Dadi decided to move into film exhibition. Dadi's extensive experience and expertise in terms of both cinema construction and the development and maintenance of film exhibition machinery made Dadi a highly competitive film exhibitor, especially in smaller cities and towns (Lie, 2008). While in larger cities, rental costs are invariably high, in smaller cities and towns, such costs are comparatively lower. However, in these smaller locations, the cost of equipment and construction can account for a greater portion of the total cost. Furthermore, the sheer number of cinemas in larger cities has resulted in the market becoming somewhat saturated. In smaller cities, towns and villages, however, this is not the case and the potential for growth still remains and is encouraged by local government incentives. Dadi has successfully taken this route, exploiting its knowledge of equipment and construction to become one of the most competitive cinema chains in China, with over 400 cinemas throughout the country.

The China Film Group Corporation (CFGF) is the state-owned film exhibitor. Many of the cinemas within this state-owned chain originated from the merging of individual cinemas owned by local provincial distributors before the CFGF and Huaxia Film Distribution (HFD) was established in 2002. The CFGF has one distinct advantage over its competitors, its connection to the state-owned distribution network, which significantly cuts the cost of film rental and grants greater access to distribution information. The CFGF jointly established the China Film Stellar Theatre Chain in 2002 alongside Stellar Megamedia, a private media and entertainment company with expertise in film production, cinema operation, advertising, etc. Stellar Megamedia pioneered some of the contemporary practices within cinema chain management,

granting the China Film Stellar Theatre Chain a certain level of advantage over its competitors in terms of its day-to-day management and general efficiency.

(2) Three main modes of operation within Chinese cinema chains

There are three main modes of operation for cinema chains within the Chinese film industry.

Mode 1: Pure Asset Link

Example: Wanda cinema chain

The pure assist link mode describes exhibitors that have built their own theatres that now serve as pure asset owned by the chain. The characteristic feature of this relationship between the exhibitor and site of exhibition is that the chain can create a unified brand through all of its sites using a centralised management system that standardises day-to-day operations and release schedules. In 2015, Wanda acquired the AMC Cinema and became the world's largest cinema operator. It has about 150 domestic cinemas and 380 overseas theatres, securing nearly 20% of the global box office. In China, Wanda Cinema's development has been greatly assisted by Wanda's commercial plazas, which have quickly become the commercial centre of China's major cities. At the same time, the commercial centre can promote the residential sales around the Wanda Plaza, which forms a benign ecosystem for the entire real estate project.

Mode 2: Assets Link

Examples: Dadi Cinema chain and Jinyi Zhujiang Cinema chain

With the assets link mode, the parent company typically owns the cinemas within the chain. The management of each cinema will be unified but each cinema has the right to adjust its practices according to need, in order to best respond to specific trends or shifts.

Mode 3: Signed to Join

Examples: China Film Stellar Theatre Chain (1751 screens in 365 cinemas).⁷⁰

Finally, utilising the signed to join method, most of the cinemas within a chain have autonomous management but they pay the chain for the right to use the brand and its

⁷⁰ in 2014

resources. The signed to join mode of operation is relatively new to China and has become an increasingly popular structural approach within the exhibition sector. The advantage of this mode is that it is flexible and allows the parent company to easily expand the chain without incurring great overheads. These cinemas have different capital resources and backgrounds, some of them come from the state-owned cinemas, some are owned by the wealthy businessman, and some come from the countryside cinemas. However, with this method, the quality and standard could potentially be compromised due to the lack of centralised management and standardisation.

In 2016, there were over 500 films released in Chinese cinemas (China Film Association & China Federation of Literary & Art Circles Film Centre, 2017), equating to more than 9 new films screened per week. The upshot of China's intensive release schedule is that films do not necessarily achieve their full box office potential before the film is replaced by the next new release. Such is limited window for cinema exhibition that many films are obliged to accept "one-day cinema tours" or "one-week cinema tours". Furthermore, the intensive release schedule also leads to a homogenising of film culture, although the diversity of the different city zones should not be overlooked. For example, the Tier 1 cities complain about the limited availability of art films, but Tier 4 and 5 cities tend to point out that they need more films aimed at the youth.

Although the geographical location and target audiences are obviously different among the 48 cinema chains (and also among their individual cinemas), they largely screen the same content, but this is certainly not sensible due to the different demands from different geographical regions of China. A certain level of flexibility is granted to individual cinemas, allowing them to adjust their schedule based on specific demands or trends, but it is still not necessarily adequate due to great discrepancies among cities caused by their local cultures and economies. Therefore, one may argue that a more flexible scheduling and management system within China's nation-wide cinema chains would be more beneficial.

In 2016, China's top five cinema chains were the Wanda cinema chain, the Dadi Digital chain, the Shanghai United Cinema chain, SMI and the China Film South Cinema Circuit, which collectively accounted for 44% of China's total box office revenue. The remaining

56% is divided between a total of 43 other cinema chains (see Figure 26).⁷¹ Apart from top five cinema chains, some other important exhibitors include the China Film Stellar Theatre Chain, GZ Jin Yi Zhu Jiang Movie Circuit Co Ltd, Zhejiang Time Cinema, China Film Digital Cinema Co Ltd, the Hengdian Theatre Chain, and the New Film Association (Entgroup, 2016).

As China's top film exhibitor, utilising the pure asset link approach, some critics believe that Wanda may soon become a target of state intervention, as seen in the Paramount Decree in the United States in 1948.⁷² However, one may argue that the Wanda Group, with a market share of only 13%, remains a far way off a monopoly and oligarchy within the Chinese film exhibition sector. However, its continuously rising share has definitely put Wanda on the regulator's radar.

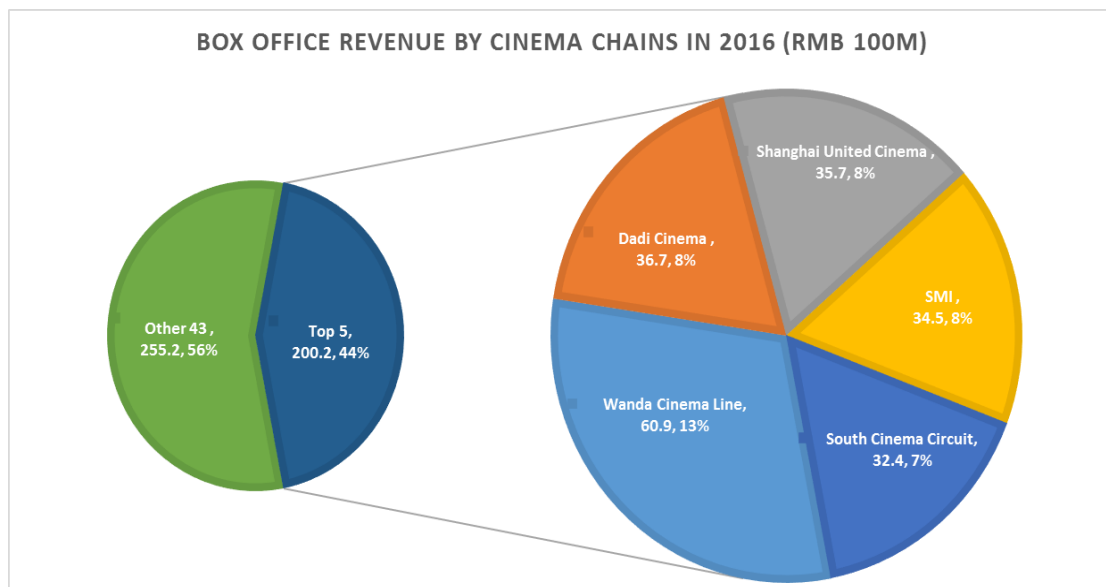


Figure 26 Box-office Revenue by Cinema Chains in 2016

⁷¹ Sources: 1905 statistics, 2016.

⁷² The Paramount Decree (United States v. Paramount Pictures, Inc., 334 US 131) of 1948 was a historic anti-trust case brought forwards by the federal government against the major film studios. The case reached the Supreme Court where it was ruled that current practices within the film industry, i.e. the studio's vertical integration of production, distribution and exhibition, granted the studios an illegal monopoly over the industry. Consequently, the major studios were obligated to divorce production and distribution from exhibition. The Paramount Decree is commonly cited as one of the determining factors in the demise of the Hollywood studio system.

(3) New developments: The National Arthouse Film Alliance

In November 2015, the Chinese government established the National Arthouse Film Alliance, an indie film circuit managed by the China Film Archive, with support from the commercial cinema chains.

The Beijing-based, China Film Archive (CFA), a state-owned cultural body, is set to start distributing both imported and Chinese arthouse films through the National Arthouse Film Alliance, which has established a theatrical circuit of around 100 screens with Huaxia Film Distribution, Wanda Cinema Line, Bill Kong's Broadway Circuit, Jia Zhangke's Fabula Entertainment, ticketing platform Weying Technology, Broadway, Lumiere Pavilions, Qujiang Film and Television and regional circuits in Jiangsu, Chongqing and Hubei provinces, among others (Shackleton and Wong, 2016).

"There are just 100 screens in the project so far, so there's not that much money in it yet — but it is a very promising start," says Gao Yitian, producer of *The Villain* (Xin Youku, 2014), an edgy indie film, (Watt, 2017). Eventually, the circuit plans to show a mixture of low-budget Chinese films and imported arthouse fare. Once the government has negotiated the terms of its film import arrangement, the organisation will be able to offer international arthouse auteurs access to the Chinese film market, which, until now, has largely concentrated on, and financially benefited from, Chinese and Hollywood blockbusters (Brzeski and Roxborough, 2017).

(4) The Consolidation of Cinema Chains

The number of exhibitors in the Chinese film industry has kept increasing, in part, thanks to the growing market and the promising opportunities and incentives that have encouraged many newcomers into the industry. However, questions regarding how long this will be the case is somewhat of a moot point and it is perhaps more fruitful to question whether a similar wave of mergers and acquisitions as those seen in the U.S. will occur in China when the market starts to lose momentum. There is currently insufficient research investigating this phenomenon.

Exhibitors with a larger number of cinemas within their chain will undoubtedly be better equipped to futureproof themselves and adapt to changing market conditions.

Compared to developed film industries, China has an excessive number of cinema chains. Among those 48 chains in China, the top 5 have taken around 50% of the market, leaving the remaining 50% to be share among a massive 43 chains. One may predict that the smaller chains will suffer most from the recent slowdown in growth within the Chinese film market.

The influx of online ticketing firms has also taken a share of this revenue. To be best equipped to utilise such online booking systems, larger chains are able to align with booking websites and provide incentives to attract customers. However, smaller chains have neither technical nor capital capability to compete in this regard. Thus, the impact of an already unbalanced market, the slowing rate of growth and the impact of new technologies in ticket purchasing has been a catalyst for a wave of mergers and acquisition (Lin, 2016). This certainly appears to be the case, as witnessed in Wanda and Dadi's recent acquisitions in 2016 (Toutiao, 2016).

4.4.1.2 Cinemas

Chain cinemas typically tend to utilise to the same schedule throughout all the theatres within that chain. However, despite this fact, individual theatres are still able to independently manage facilities to enhance the customers' viewing experience, meaning that competition can exist between the cinemas of a single chain. The viewing experience is perhaps the most important measure through which theatres can differentiate themselves from other cinemas and thus increase revenue. With the recent boom of new exhibition technologies, such as 3D and VR, theatres have been required to upgrade their facility more frequently. Improving the audiences' viewing experience does not merely include keeping up with the latest technological advances, however, it also includes enhancing and maintaining the standards of ancillary businesses such as food and concessions, as well as other surrounding shopping experiences. Cinema owners normally own or have stakes in the surrounding premises so the popularity of the cinema and its surrounding can be reciprocal. However, competition from other types of entertainment such as television, the Internet, and video games are increasingly diverting and fragmenting audiences. Cinemas must, therefore, attempt to provide a

pleasurable viewing experience, unique from these other forms of media entertainment in order to maintain its audience.

In order to cater for the different demands of the audience, theatres offer a variety of viewing experiences. These include VIP screenings, themed screening, couples' screenings, etc. At one premier theatre, for example, massage seat-beds are installed, and a service call is also provided. Disposables slippers are also provided to further pamper the audience, which can prove to be a welcome addition for audiences who have just finished a busy shopping trip. These services ultimately add value to the ticket price and thus increase the revenue of a cinema. In addition, the cinema can function also a place for audiences to rest and recharge between shopping or going to a restaurant. Thus, the cinema works in synergy with other surrounding industries.

There are some specific differences between cinemas in terms of their daily operation and services.

- A. Multi-channel ticket sales. Mobile and Internet ticket sale have become increasingly common in most cinemas. In addition, the ticket office can also be located at the entrance of the building/complex rather than merely in the cinema (a significant number of cinemas are located in larger complexes and plazas that also include shops and restaurants) in order to attract a broader clientele of shoppers and diners. Combining cinema tickets with other products is also a common way to promote a specific film or improve ticket sales more broadly.
- B. Improved membership services. In economics, the Pareto principle indicates that approximately 80% of revenue comes from 20% of customers.
- C. Parent-friendly environment. The family-friendly cinematic experience offers the potential for growth because China has witnessed the rise of a new generation of young parents who have experienced the boom of the film industry and feel more comfortable taking their children to cinemas. For cinemas, it is obvious that the services need to be tailored towards parents, perhaps more than the children. This has given rise to special baby screenings and parent and child screenings that are characterised by lower volume and lights throughout screenings. Other

theatres offer children's seats in order to ease the process of cinema attendance for parents accompanied by children.

- D. Customised service. Food and beverage can be ordered in advance and different dietary requirement can be catered for. Food and beverages can be served to specific seats chosen by the audiences.
- E. Air purification. The air quality in China is poor. High-end cinemas have introduced advanced air purification systems into their theatres to improve the air quality. The air quality will affect audiences' viewing experience especially in areas with a high population density.
- F. Audience-oriented scheduling. Some cinemas have pioneered a new form of audience-controlled scheduling. The audience is able to select both the film screened and the time of the screening rather than following the standard schedule set by the cinema. This novel cinematic experience is expensive and only targets a niche market. However, the profit margin from this audience-controlled scheduling is much higher than conventional screenings and so is seen as an attractive business proposition for some cinemas in larger cities.

4.4.2 Screening Schedule

4.4.2.1 Who Decides the Film Schedule?

There are two main modes of selecting and organising the film schedule. The first pertains to chain cinemas, in which the central office releases a preliminary schedule to all cinemas within the chain. Each cinema has some degree of flexibility in adjusting the number of screens for each film within a certain level of margin. This margin is granted by the chain to allow exhibitors to make adjustments according to local audience preferences. Wanda Cinemas and Dadi Cinema use this mode of scheduling. In the second mode, individual cinema has full authority to set the schedule of a given film, but the distribution of the film is dictated by the chain.

What are the main contributing factors that impact upon the making of a film schedule? Traditionally, the schedule is made by assessing the cast of a film and the promotion made by the distributor. Popular stars and director are considered as lucrative factors

for box-office revenue so films with popular cast and/or crew are allocated more screens and better times. The second factor is the location of the cinema and the local economy. Cinemas in large cities tend to give more screening time to imported blockbusters and high-profile domestic films (SHI Yedong, 2016). The ticket prices of those films are also more expensive as many of them require the latest exhibition technology, such as 3D and IMAX. Domestic comedies and films with strong regional appeal tend to get more scheduling time in smaller cities where these advance technologies are not implemented as widely. Typically, arthouse films are seldom scheduled in the cinemas of small cities and have limited schedules even within larger cities. The commercial return of art films in China is low mainly because they are considered niche and have a limited fan base. In general, the market for arthouse films tends to be in larger, more cosmopolitan cities such Beijing and Shanghai.

However, the centralised scheduling system has the potential to be somewhat problematic. The schedule can be shaped by factors other than the individual film or the market. The business relationship between the cinema manager and the distributor can also be an important factor in determining schedules, which can lead to corrupt practices such as bribery. However, in recent years, this issue has been alleviated somewhat thanks to more stringent regulations from the cinema chains and the use of digital records for box-office revenue. The competitive nature of the film exhibition market has encouraged cinemas to schedule film based on their potential returns. Misconduct will ultimately result in poor performance and therefore less profits, which eventually adversely impacts upon the parent company and the operator(s) of that particular cinema (DONG Wenxin, cited in SHI Yedong, 2016).

Although individual cinemas have some degree of flexibilities with regards to scheduling, it is important for cinemas to maintain a good relationship with producers and distributors in order to aid long-term collaboration. As the Chinese film industry is vertically integrated, cinema schedule will be heavily influenced by distributors.

The popularity of online ticketing has also become an important factor within the exhibition sector of China. When online ticketing was first introduced in 2015, online vendors offered subsidises to exhibitors on certain films in exchange for their business. As a result, exhibitors would grant more favourable scheduling to films with more

subsidies, as more tickets were expected to be sold. After several years, online ticketing became standardised within the Chinese film industry and less subsidies were offered by online vendors. Since online ticketing allows for tickets to be booked well in advance, the data collected from online booking can be used to predict the performance of an upcoming film. This data has proven very useful for cinemas to dynamically adjust their schedules, resulting in more efficient and effective booking relevant to the performance of a given film.

However, the booking data supplied by online ticket vendors can be fabricated. Distributors can book a large number of tickets themselves to create an illusion of popularity for an upcoming film and misleading exhibitors into granting such films more screens and better screen times. Therefore, cinemas cannot always trust the booking data they receive and are compelled to make inspections at their theatres to check the actual attendance figures against the booking data.

According to Dong (cited in Shi, 2016), cinema attendance rates can be also misleading. For example, some distributors and producers emphasise high attendances but request that cinemas only schedule a film at smaller theatres. A typical small theatre may only be a quarter of the capacity of a larger one. Consequently, the percentage audience capacity will be high at smaller theatres, but it does not mean the film is necessarily popular and the total size of the audience can still be low. This data is then used in the promotion of the film and used to convince other cinemas to give more scheduling time to the film.

Public holidays are another important factor in film scheduling. The type of holiday such as the length, season and tradition will also impact upon which films are popular. It is important for cinemas to investigate the suitability of films for different type of holidays. For example, comedies are typically welcomed during the Chinese New Year holiday week and epic blockbusters are traditionally more popular during the National Day holiday week. Sometimes, a trail test using small theatres can prove to be a useful endeavour for exhibitors to test their schedule. Attendance figures are monitored during these trails to gauge the popularity of a given film.

Diversified competition has also proven to be a useful strategy when scheduling films. It is common to have more than one cinema in the districts of most of China's larger cities.

It is therefore important for cinemas to try to differentiate themselves from their competitors by scheduling different type of films. For example, if other cinemas are all scheduling blockbusters, it may prove to be beneficial to programme something different, such as an arthouse film, in order to diversify the schedule and give the audience an alternative to that offers by rival cinema.

Film scheduling is based purely on the potential commercial returns for the cinema. Regardless of whether a film is critically lauded or not, if a cinema expects large box office returns, they will allocate more of their schedule to it without hesitation. However, flooding the market with profitable but “low-quality” films will ultimately damage the market and wider reputation of Chinese cinema. Audience preferences must be considered in order to facilitate long-term and sustainable growth (Shi Y. , 2016).

The availability of each film exhibited in cinemas is controlled, as is the number of screens dedicated to each film. The cinema can increase the number of screenings/screens of a particularly popular film to increase its box-office potential. The schedule can be intensive as a result of the limited gap between each film screening. Typically, the time between two screenings is around 25 to 30 minutes. However, cinemas in larger cities sometime reduce this time to as little as 15 minutes. This forces the custodians to begin cleaning the theatres as soon as the end credits start, which encourages the audiences to leave before the theatre lights go up. Although this practice clearly impacts upon the viewing experience of audiences, it is deemed a necessary sacrifice as the time saved allows exhibitors to squeeze in one extra screening into their schedule, which will naturally be of significant financial benefit. For popular films, the attendance rate can be more than 50%, and for a 200-seater theatre, more than CNY 4000 (about USD 625) in additional revenue can be generated by theatres everyday by using this very tight screening schedule, based upon the ordinary ticket price of CNY 40 (about USD 6.25) per ticket. If all the cinemas within a chain employ this method, as well as taking advantage of the additional peripheral income from snacks and beverages, more than CNY 10,000 (about USD 1,562.5) in additional income could be generated in one day. This is, naturally, a very attractive proposition for the exhibitor. Typically, contemporary Chinese audiences have minimal interest in the cast list of a film, and so the sacrifices produced by the quick turnaround are deemed marginal.

Additionally, through disparities within scheduling, one can uncover the competition between exhibitors. Take, for example, the film, *I Am Not Madame Bovary* (FENG Xiaogang, 2016). This was a highly anticipated film with both a reputable director in Feng, and a popular star in FAN Bingbing. It would thus be expected that such a film would be granted a universally privileged position within the Chinese screening schedule. However, two polarised schedules emerged with Wanda Cinemas dedicating only 13% of its screen time to the film, while cinemas supported by the Huayi Brothers dedicated more than 90% (He Y. , 2016). The Huayi Brothers' theatres dedicated so much of their schedule to the film as the Huayi's had also served as the film's producers and distributors. Wanda's limited scheduling of the film, however, has been widely perceived as the vertically integrated Wanda's attempt to challenge to the Huayi Brothers' horizontally integrated mode of operation. The deliberately low schedule in Wanda Cinemas was deemed to be Wanda's way of protecting its own production and distribution interests by dedicating more of its screen time to their own productions. With more resources and greater scheduling power, the vertically integrated companies have a distinct advantage over their competition, which ultimately explains the underwhelming box-office performance of *I Am Not Madame Bovary*. There have been similar cases in recent years, and films companies in China are increasingly striving for vertical integration to strengthen their abilities to compete for future scheduling space.

4.4.2.2 Domestic Film Protection

The domestic film protection month has received a significant amount of press coverage in recent years. In this month, no imported films are scheduled in cinemas. However, while proving popular in China, the domestic protection month has never been officially inaugurated into law by the government. The origins of this policy came from a suggestion that in order to safeguard the box office of domestic cinema, exhibitors were discouraged from exhibiting imported films between the end of June and the beginning of August in 2004. However, the government has never officially banned the exhibition of imported film and it is at the cinemas' own discretion whether they schedule imported films during this time period or not. In reality, however, imported films are still regularly scheduled (Jin T. , 2012).

In fact, the governmental ‘protection policy’ can be traced back to the *Regulations on Administration of Films*, which was set in the early stages of the Chinese film industry reforms of 2002. It regulates that no less than the two thirds of the total screening time of all films screened in Chinese cinemas should be dedicated to domestic films.

The box-office revenue of domestic films has caught up to imported films in recent years. During public holiday weeks, such as the Chinese New Year and the National Day in particular, domestic films typically out-perform imported films. Therefore, the decline of imported films in the schedule may merely reflect the current state of the Chinese film market as opposed to the impact of the government’s external intervention.

The delay of release of each imported film due to the ‘Protection Month’ for the domestic films from 2010 to 2016 can be seen at the original schedule date and actual release date in Figure 27.

YEA R	FILM	Original Schedule date	Actual release date
2010	<i>Knight and Day</i> (James Allen Mangold)	23 June	6 July
	The Sorcerer's Apprentice (Jon Turteltaub)	14 July	9 September
	<i>The Last Airbender</i> (M. Night Shyamalan)	1 July	23 August
	<i>Inception</i> (Christopher Nolan)	16 July	1 September
2011	<i>Green Lantern</i> (Martin Campbell)	17 June	20 October
	<i>Cars 2</i> (John Lasseter, Brad Lewis)	18 June	24 August

	<i>Transformers: Dark of the Moon</i> (Michael Bay)	29 June	21 July
	<i>Harry Potter and the Deathly Hallows: Part 2</i> (David Yates)	11 July	4 August
	<i>Captain America : The First Avenger</i> (Joe Johnston)	19 July	9 September
2012	<i>The Amazing Spider-Man</i> (Marc Webb)	3 July	27 August
	<i>Ice Age: Continental Drift</i> (Steve Martino and Michael Thurmeier)	13 July	27 July
	<i>The Bourne Legacy</i> (Tony Gilroy)	10 August	25 October
	<i>Resident Evil: Retribution</i> (Paul Anderson)	12 September	17 March 2013
2013	<i>Fast & Furious 6</i> (Justin Lin)	20 June	26 July
	<i>Pacific Rim</i> (Guillermo del Toro)	12 July	31 July
2014	<i>Dawn of the Planet of the Apes</i> (Matt Reeves)	11 July	29 August
	<i>Lucy</i> (Luc Besson)	25 July	24 October
	<i>Guardians of the Galaxy</i> (James Gunn)	1 August	10 October
	<i>Teenage Mutant Ninja Turtles</i> (Jonathan Liebesman)	8 August	31 October
	<i>The Expendables 3</i> (Patrick Hughes)	15 August	1 September
2015	<i>Inside Out</i> (Peter Hans Docter)	19 June	6 October
	<i>Terminator Genisys</i> (Allen Tyler)	1 July	23 August

	<i>Minions</i> (Kyle Balda, Pierre Coffin)	10 July	13 September
	<i>Ant-Man</i> (Peyton Reed)	17 July	16 October
	<i>Pixels</i> (Chris Columbus)	24 July	15 September
	<i>Mission: Impossible - Rogue Nation</i> (Christopher McQuarrie)	31 July	8 September
2016	<i>Ice Age: Collision Course</i> (Mike Thurmeier)	22 July	23 August
	<i>Star Trek Beyond</i> (Justin Lin)	22 July	2 September
	<i>Jason Bourne</i> (Paul Greengrass)	29 July	23 August
	<i>Ben-Hur</i> (Timur Bekmambetov)	19 August	10 October

Figure 27 the imported films screened in China between June and August from 2010 to 2016

4.5 Growing Pains within the Exhibition Sector

The main issues within exhibition sector of the Chinese film industry are as follows:

(1) Scheduling clashes

The correct position within the schedule is imperative to the success of any film. The holiday seasons are the most popular times of year for cinemagoing and there will inevitably be heavy competition for scheduling space and even clashes between competing films during this time. In order to optimise the scheduling of their films and avoid conflicts with rival products, distributors attempt to build mutually lucrative relationships with exhibitors. In return for schedule time, distributors forfeit a share of their box-office revenue and even offer exhibitors fixed cash returns, regardless of the actual attendance figures of the film.

Some film larger companies have both distribution and exhibition wings within their conglomerate, allowing them to better control the schedules of their own films. This form of vertical integration has helped larger film companies maximise profits by

securing better positions for their films within the exhibition schedule. The remunerative sharing deals and fixed cash settlements made with distributors help exhibitors reduce risk, making them more willing to prioritise certain films. However, despite incentives, low budget arthouse films are seldom prioritised, as they are not deemed financially viable. This ultimately serves to limit the variety of film-types exhibited in cinemas.

(2) An insufficient number of screens

In China, the number of screens per cinema currently stands at less than 4.8 screens (there are currently 381 cinemas in China). Most of the legacy cinemas in China have less than four theatres, causing scheduling difficulties, especially during holiday seasons where more than 30 new films can be released. As a result, some films have to be excluded and, consequently, cinemas can lose tens of thousands of RMB per day by selecting and/or excluding the wrong films. It is worth noting that the omission of certain films may affect the income of an entire season, as once the film has been selected for the schedule, it cannot be removed and/or replaced. However, if the cinema has more screens, it may be able to adjust its schedule internally to allocate more screen time to more popular films and reduce the screen time allotted to those underperforming, thus minimising losses and capitalising on the income of more popular films.

(3) Box-Office Fraud

Box-office revenue is, naturally, a significant indicator of growth within the film industry. Consequently, this information is used by official organisations such as the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) as well as producers, distributors and exhibitors. Not only do box-office figures indicate the size of the market at any given time, but producers can also utilise these figures to secure backing from domestic and/or international investors.

However, box-office revenue figures should not be the only indicator of success used within the market. Films should be seen as long-term assets rather than mere inventory items, meaning their worth should be valued by both box office figures and the finance generated from future re-releases and other derivatives (Vogel, 2005). There is still no proper re-release system in China, thus placing very high expectations on that initial,

and notably short, period of a film's cinematic release. Although some franchise films such as *Lost on Journey* (Raymond Yip, 2010) and *Journey to the West: Conquering the Demons* (Stephen Chow and Derek Kwok, 2013) have proven successful in recent years, drawing comparisons to successful Western franchise films such as the *Star Wars* series or the *Marvel Universe Series*. Domestic films in China tend to lack sequels and few films have been able to capitalise on the branding of their intellectual property in ancillary markets such as books, toys, games etc. The box-office revenue generated in the brief window of a film's cinematic release has driven producers to rely on new releases, rather than expanding existing storylines through sequels or spin-offs. However, the quality of these new releases inevitably becomes compromised as producers strive for profitable new ideas. In addition, the lack of professional appraisal schemes within filmmaking companies limits a potential investor's ability to assess these companies, meaning that they have to rely largely on box-office figures.

The lack of more substantial methods of measuring the growth of the Chinese film market and relying solely on box-office figures could potentially jeopardise the entire film industry. Exhibitors, being the only sector in the industry to produce such figures, are granted a disproportionate amount of power, potentially harming competition within the industry and creating fears surrounding the fraudulent manipulation of data.

Although China has 48 main cinema chains, the top five occupy 45% market share. These five chains have a large circuit of cinemas located nationwide. These theatres typically have superior facilities and are normally located in highly populated cosmopolitan areas of larger cities. Therefore, the decisions made by these large exhibitors with regards to scheduling are critical to distributors, since these exhibitors make the lion share of a film's box office revenue.

Beyond the issue of uneven competition produced by China's film exhibition oligopoly, another, more serious, problem has arisen from the over-reliance of box-office data, box-office fraud. Box-office fraud can take a few different forms. In some cases, cinemas under-report receipts or transfer the figures of one film to another. This is often the result of pressure from distributors, and even government departments, keen to see high box office returns for their movies. In other cases, distributors and exhibitors are

involved in fraudulent ticket buying operations to inflate a film's box office gross for marketing purposes, as seen in the highly publicised case of *IP Man 3* (Wilson Yip, 2015). The fraudulent box-office figures surrounding *IP Man 3* made global headlines. Exhibitors claimed that more than 73 cinemas and over more than 7300 scheduled screenings were fabricated, equating to RMB 32 million in fraudulent box-office revenue (more than half of the film's actually accrued box-office revenue). Many academics and industrial personnel have claimed that the case of *IP Man 3* is just the tip of the iceberg and the Chinese film industry has a systemic issue with regards to fraudulent box-office records. It is believed that this kind of manipulation significantly contributed to the 48% increase in China's box office revenue in 2015 (Shackleton, 2017). One of the motivating factors behind such fraud is the over-reliance on box-office revenue in China. There is no better publicity than having record breaking box-office figures in order to win over future investors. However, such examples of box-office fraud are potentially damaging as investors will ultimately lose confidence in the market. The films themselves will also suffer because audiences and critics may make assumptions about the quality of these films based on their fraudulent box-office claims, supposing that the need to manipulate figures equates to low-quality, whether this is actually the case or not.

After the global exposure of the *IP Man 3* case, regulatory bodies took action in order to try and restore the reputation of the Chinese film industry. The punishments for fraud have been increased, ranging from written warnings and fines of up to RMB 200,000 for smaller misdemeanours, to greater fines of up to RMB 1M and theatre closures in larger cases. To reinforce the regulation and punishments, specific actions have been written into the new Film Industry Promotion Law. The SAPPRFT stated that box office fraud hampers the development of the industry and called for resolute action to be taken against violations. Since Promotion Law was released in March 2017, more than 326 cinemas have been fined due to their manipulation of box-office revenue(Shackleton, 2017).

Perhaps somewhat unsurprisingly then, since the *IP Man 3* case, the annual box-office revenue in China has experienced a decline in growth, from 48% in 2015 to 30% in 2016. Although this decline may also be seen as an upshot of the decline in China's economic growth more broadly. The government's crackdown on box-office fraud in 2016,

however, must also be seen as an important factor in this decline (Shackleton L. 2017). Nevertheless, the illusion of the success within the Chinese film industry is neither justified nor sustainable. A healthy film industry must, therefore, be measured by more than merely the box-office revenue.

By way of conclusion, I argue that the over-emphasis currently placed on box-office revenue is doing more harm than good in the Chinese film industry. To mitigate the damage, the industry must cease equating value merely with the box-office taking. To do this, the industry needs to introduce more methods of quality assessment and reduce the complexity of the current incentives schemes that disproportionately benefit exhibitors.

(4) Challenges of cinemas

Currently, both the quality and capacity of exhibition facilities are insufficient to meet the needs of an increasing number of China cinemagoers, and their diverse demands and requirements. What is more, cinemas are also facing fierce competition, from not only rival cinemas, but from other emerging competitors.

(1) Alternative entertainment

While competition from other forms of non-cinematic media is hardly a new phenomenon, in recent years this competition has intensified. The Chinese television industry has undergone rapid growth, improving both in terms of quality and popularity, particularly amongst a middle-aged and elderly audience. At the same time, new, emerging media platforms and technologies such as Internet and mobile devices have targeted a younger demographic. It is therefore important for exhibitors to promote the unique selling point of the cinematic experience to cultivate an audience of enthusiastic cinemagoers.

(2) Increasing rental costs

The success of the film market has resulted in an increase in the number of new cinemas being built in China, especially in larger cities and, consequently, this has led property rental costs to rise. There has also been an increase in the number of cinemas being built within larger malls and shopping complexes. These cinemas are typically more luxurious and high-end than the average cinema and, consequently, rental prices are even higher.

Although being located in a shopping centre or similarly populated location does indeed have its benefits, the additional costs have resulted in an increase in tickets prices, which has proved frustrated to certain sections of the cinemagoing public.

(3) Delayed investment return

In recent years, the percentage share of the box-office allocated to producers has increased, at the expense of the exhibitors. Exhibitors have attempted to combat this situation by striving for lower profit margins. Given the break-down of costs, the revenue of a typical cinema amounts to a roughly 50% share of box-office revenue. However, if the cinema is rented the share is drastically reduced. Rental fees can amount to a further 15% of the total box-office revenue and the cost of equipment, labour and other operational outgoings can account for about 30%. Therefore, the actual gross margin for a cinema amounts to roughly 10% of the box-office revenue. This is under the assumption that the attendance is high, which is certainly not always the case. Therefore, it is not a surprise that many cinemas are running at a loss. For outdated cinemas, the situation is worse. Due to aged equipment, which ultimately provides a compromised watching experience, most of the legacy cinemas have experienced an audience increase of only 10% compared to the average increase 30%.

Due to their control of film booking and scheduling, exhibitors hold a disparate amount of power within the Chinese film industry. The exhibition sector is the most market-oriented area of the film industry and government control and regulation is severely lacking in comparison with the production and distribution sectors. The reason for this is because exhibitors contribute the least to the content of the cinematic product and thus seen as the least likely sector to have an adverse social impact. Meanwhile, the commercial activities of exhibitors have also been perceived by the government as facilitating competition and thus having a positive impact on the economy.

Insufficient government intervention has facilitated the rapid, and indeed, disproportionate growth of the exhibition sector, which has resulted in biased scheduling that favours more financially lucrative blockbusters and limits the exhibition time for arthouse and low budget films. In order to ensure the long-term health of the Chinese film industry, I argue that the government must use its influence and regulatory power to compel exhibitors to adequately schedule arthouse and low budget films,

especially domestic productions. I also maintain that vertical integration can somewhat reconcile the conflicts between distributors and exhibitors, creating fairer scheduling at a reduced cost, which will naturally benefit the film industry as a whole.

4.6 Potential Solutions to the Issues within the Chinese Film Exhibition Sector

To address the issues discussed above, I aim to provide some potential countermeasures:

First, further merges and acquisitions among the existing cinema chains should be encouraged. The major 48 cinema chains need to expand their theatre and screen numbers, but with a greater focus on rural areas. Compared to the leading cinema chains in the North America, the top two Chinese chains, the Dadi Theatre Circuit (4,319 screens) and China Film Digfilm Cinemas (4,039 screens)⁷³, have considerably fewer screens than their Western counterparts. However, it is worth noting that the number of screens occupied by the chains ranked from forth to tenth in China amount to more than that of the equivalently ranked North America chains, and they are not far behind the top three⁷⁴. Ultimately, what this suggests is that competition between exhibitors is strong and the Chinese film exhibition sector is unlikely to fall under a monopoly.

Secondly, the existing cinemas must strive to expand their facilities. That is to say, cinemas need to increase the number of screens for each of their theatres in order to address the problem of tight scheduling. Cinemas with an average of eight screens or more would be better suited to accommodate the demands of the Chinese film industry's fast paced exhibition schedule.

At the same time, multiple screen sizes and types of theatres would also help to diversify the exhibition schedule and maximise profitability. Smaller theatres can be reserved for arthouse films, which would allow cinemas to cater for alternative, niche audiences. Such an approach to scheduling is typical in the United States, with different film-types typically playing in different varieties of cinemas. For example, movies like *Furious 7*

⁷³ Source from *China Film Insider*

⁷⁴ AMC Theatres (8,218 screens), Regal Entertainment Group (7,379 screens), and Cinemark USA, Inc. (4,544), source from National Association of Theatre Owners, 2018

(James Wan, 2015) and *The Avengers: Age of Ultron* (Joss Whedon, 2015) mainly play in commercial theatres. Most of these theatres have multiple screens and up-to-date facilities, as their main consumer base is invariably young adults and teenagers. The smaller theatres, those housing just a few screens, are largely dedicated to exhibiting arthouse, independent and foreign films as well as reruns of classics. Another variety of cinema in the U.S. is the drive-in, which mainly shows low-cost films at cheaper ticket prices. As a result of this hierarchy, each cinema's target audience is clear, and they are not in direct competition with each other. This ultimately produces a more sustainable relationship between the different cinema types. Diversified exhibition schedules also encourage producers to support alternative forms of cinema, such as the arthouse film, which can potentially cultivate a greater appreciation for alternative types of cinema. The cinematic exhibition of art cinema also serves to emphasise the diversity of the Chinese film market and symbolise the industry's sustainability.

Thirdly, more government regulation is needed. Development and expansion will not reach its full potential without government influence and intervention. An example of the government's influence can be seen in the domestic film protection month. Although the scheduling of only domestic films is not an official law, the government has frequently voiced its support for the scheme and encouraged exhibitors to participate, which many have done without reluctance. This ultimately demonstrates the power of the Chinese government to influence the film industry and shape its growth.

Fourth, the Chinese film industry must seek to branch into ancillary markets. Offering peripheral products and services tied to the film will increase a film's broader profitability and reduce the pressure on the film's initial box-office release. Advertisements played before the main feature can often prove to be an effective way to informing potential customers of products related to the film they are about to see, while also capitalising on the cinema's superior audio-visual quality.

In addition, ancillary products related to films currently being exhibited could be sold in the cinema foyers or in stores proximate to the theatre. These film-related products can be sold at a high mark-up, capitalising on the short-term period of a given film's time in the cinemas and transient period of cultural relevancy.

Other peripheral products such as snack and beverage can also serve as an important source of additional revenue for cinemas. At present, the non-box-office income of Chinese cinemas stands at about 10% of the total revenue. This figure is comparatively low when positioned against that of Korea or America, whose non-box-office revenue currently accounts about 30% and 50% respectively.

Furthermore, a greater emphasis could be placed on membership schemes or other varieties of subscription-based services. Memberships can incentivise regular cinema attendance or encourage the consumption of other film-related products by offering certain benefits, rewards and/or discounts to participating customers. These membership schemes can also be linked to other products and services. For example, cinema chains can work alongside credit card providers, offering audiences discounted tickets if they use the associated credit cards. Such partnerships can prove mutually beneficial to both parties, while simultaneously incentivising the customers. Membership schemes may also help build a more loyal, long term customer base. By offering special events for members, exhibitors can expose film fans to a variety of different forms of cinema and potentially foster a boarder and more diversified audience-base, which could in turn contribute to more variegated production, which will benefit the film industry as a whole.

Film-related events such exhibitions, auctions, saloons, symposiums, media conferences, etc. can be held in cinemas. Traditionally, cinema attendance is low in the morning and early afternoons, especially on workdays. Instead of exhibiting films to near-empty theatres, the cinema can use its theatres to host film-related events to gain more incomes. What's more, it is becoming increasingly common for cinemas to be fitted with conferencing and corporate facilities that are available to hire, meaning that events need not necessarily hamper the exhibition schedule. In order to make these events more attractive to a wider audience, cinemas could enlist relevant personnel from the films or press, such as actors, directors, writers, producers, critics, and even film scholars to introduce the films and hold "Q and A" sessions. It is important that cinemas, especially those in larger cities, do more to differentiate themselves from their competitors given that they have only marginal difference in terms of their facilities and schedules; such events would serve to do this.

Exhibitors should also place more emphasis upon the reputation of their brand. The rapid period of expansion for cinema chains has passed, and rate of new cinema development has been decreased since 2016. Improving the quality of the viewing experience of existing cinemas should thus become a major priority. Broadly speaking, Chinese cinemas are in need development to improve their facilities, operations and services. As well as upgrading equipment and installing advanced screening technologies, thoughtful service and diversified scheduling are equally important. Vertical integration will also benefit the exhibition sector and the film industry more broadly, allowing continuous innovation and development as a result of better economies of scale.

4.7 Chapter Conclusion

In this Chapter, I have sought to expose readers to the conditions currently characterising the exhibition sector of the Chinese film industry. I have examined the features and existing state of affair of cinematic exhibition in China in relation to current development trajectories, currently existing facilities, the importance of box-office revenue, the significance of scheduling and ticket prices. This chapter has also analysed the main modes of operation in these facilities, uncovered some of the main issues currently within exhibition sector and has communicated potential solutions to these problems.

Exhibitors hold a disproportionate amount of power within the Chinese film industry due to their control of the exhibition schedules. Exhibitors pay little heed to the content of the cinematic product and its market-oriented approach to the filmic product has allowed the exhibition sector relative freedom from government intervention. Minimal government intervention has facilitated the rapid growth of the exhibition sector, as seen in rapid growth in the number of cinemas and screens. However, a lack of intervention has also led to biased, homogenised scheduling and even cases of fraud. It is the assertion of this thesis that greater government regulation is needed within the exhibition sector in order to ensure that transparency ensues, and competition is not compromised. Additionally, government involvement would encourage diversification within the exhibition schedule, pushing cinemas to include more alternative varieties of cinema such as arthouse and low budget films, especially those made by domestic

filmmakers. This thesis also claims that vertical integration can potentially reconcile the conflict between distributors and exhibitors and increase even-handedness and transparency of scheduling, which will naturally benefit the industry as a whole.

Thesis Conclusion

The Chinese film industry has developed exponentially between the years 2010 and 2016, and while it continues to exhibit great potential for further development, this still relatively nascent industry has faced, and will continue to face, many challenges and transitions along the way to becoming a leading global industry. The Chinese film industry is a symbiotic and interconnected industry, woven from many individual sectors and divisions, each strand intersecting with those surrounding it, from and within production, distribution, and exhibition. The film industry also simultaneously co-operates and competes with other related industries, such as the Internet and the broader entertainment industry. Furthermore, such has been the significance of the Chinese film industry between 2010 and 2016, that it has contributed substantially to the dynamic development of the country's economy more broadly. Yet, at the same time, the Chinese film industry is becoming increasingly sensitive to China's wider economic developments, especially when compared to several years prior, and the Chinese economy, alongside Chinese politics and social dynamics, have increasingly begun to impact upon the Chinese film industry, both in terms of industry practices and the industry's profitability.

This thesis has contributed to the existing research on Chinese cinema by adopting a political economy approach to the study of the contemporary Chinese film industry, providing comprehensive analysis of industry practices and developments between 2010 and 2016.

This study has sought to chart developments within the Chinese film industry and relate them to China's wider social structures, analysing their impact and advantages over the infrastructures they superseded. The thesis has also highlighted the Chinese government's continued impact and involvement within the Chinese film industry. While China has increasingly embraced the market economy, the government has continued to exert authority over the film industry. The government has been instrumental in facilitating the industry's transition to a more market-oriented system and been active in enabling the industry's subsequent expansion. Notwithstanding the continued debates surrounding the openness of the Chinese film market and the

country's still stringent censorship laws, the Chinese government has had a largely positive influence on the Chinese film industry between 2010 and 2016, creating an environment that has encouraged private enterprises through market-oriented reforms, while still maintaining ideological control of the country's cinematic output and the image of China disseminated to the rest of the world. It is the assertion of this thesis that the government's film policies have played a hugely significant role in the development of the contemporary Chinese film industry. In this way, this thesis has offered an atypical approach to the study of Asian cinema, one that is distinct from the aesthetic and/or textual studies that have often overshadowed alternative approaches to film studies.

This thesis has critically analysed the contemporary Chinese film industry from multiple angles and perspectives, engaging with the policies dictating the industry and the policy-making process, as well as with China's production, distribution and exhibition sectors. In doing so, this thesis has introduced the reader to the systematic structures in operation within the Chinese film industry between 2010 and 2016, and analysed the factors producing and affecting the rapid development of the industry.

The introductory chapter began by elucidating upon the political economy approach and explaining how it can be applied to film industry research. I argued that the political economy approach allowed for a macro-analysis of the Chinese film industry, in which research engages with the ways in which wider economic, social and political determinants impact upon and interconnect with the film industry. The political economy approach provided a means of understanding and explaining the trends and developments experienced within the Chinese film industry between 2010 and 2016, while also demonstrating the industry's symbiosis with contemporary Chinese politics and the country's wider economy and social developments. This approach consequently gave the study a quite comprehensive scope. The characteristic features of the Chinese film industry were discussed and defined within the context of the political, economic and social climate of contemporary China. Such factors include the rise of China in the global economy, the government's adaptation of soft power, China's economic growth, slowdown and reset, the rise of the Internet, China's increasing urbanisation, etc. These unique characteristics have all, to varying degrees, impacted upon the development of

the Chinese film industry, and by charting and analysing these changes and developments, industry personnel are granted a better understanding of the Chinese film industry and may therefore be able to introduce measures that will allow for healthy and sustainable future development.

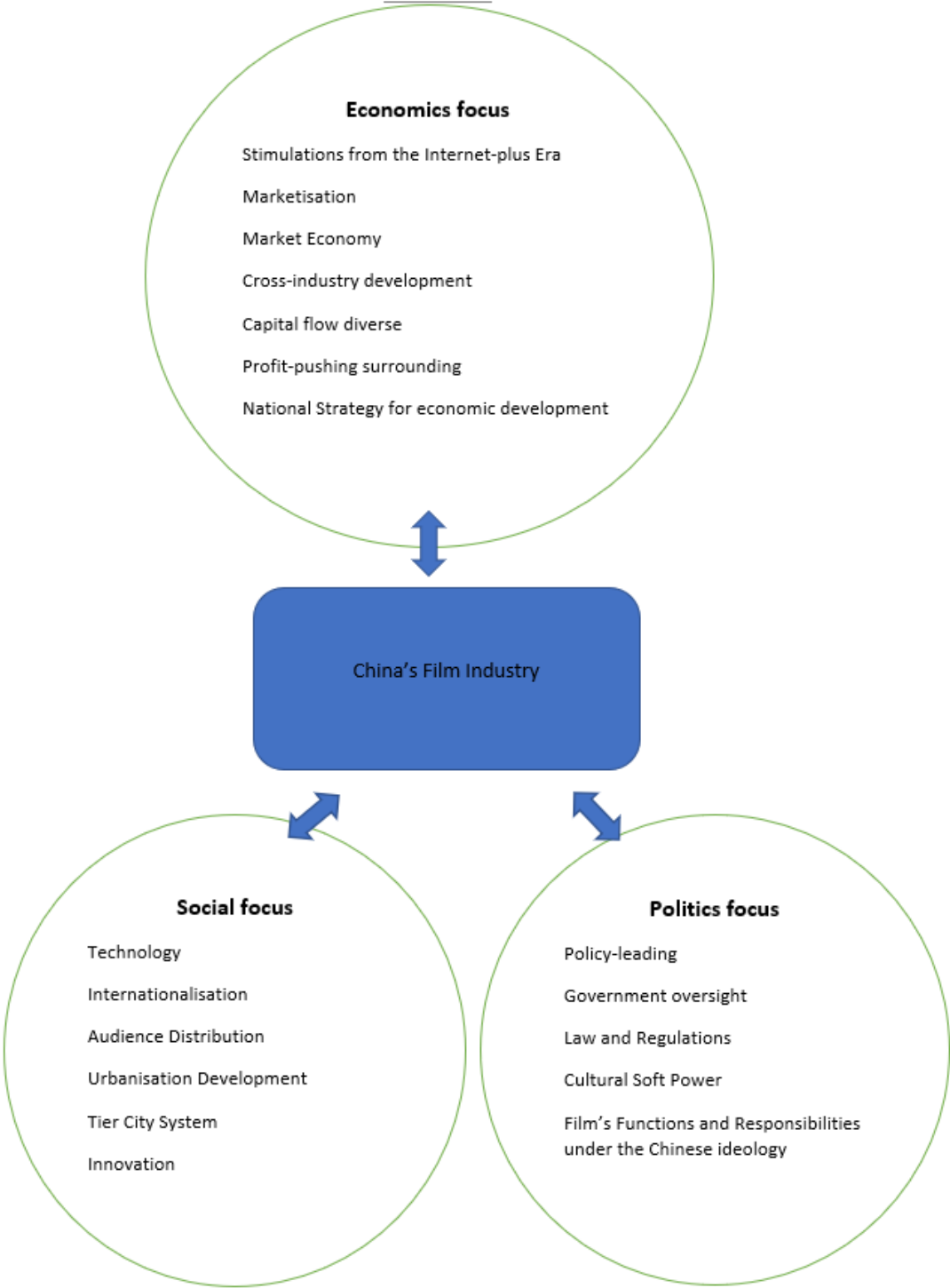


Figure 28 The Chinese Film Industry Framework: using Political Economy approach

Following the introductory chapter, a chapter was dedicated to orienting the reader in the specific context of China and the Chinese film industry. In this chapter, the author introduced a number of key concepts and contextual information that endeavoured to provide the reader with a better understanding of the film industry prior to the specific period addressed in the analysis, that being 2010 to 2016. This chapter engaged with a number of China's key ideological and political principles; innovations and changes within the film industry and the hierarchy of film industry authorities; traditional spectatorship practices and developments within Chinese audiences over time, and key economic developments such as the diversification of ownership, foreign investment and developments within the taxation system.

The policy chapter followed, in which the author discussed the main pieces of legislation dictating the operational practices within the Chinese film industry between 2010 and 2016. In this section, the analysis engaged with the current policies employed within the contemporary Chinese film industry, their impact on filmmaking practices and the legislators that enforced them. The chapter also discussed the different approaches to policymaking and their enforcement within the production, distribution, and exhibition sectors respectively. The analysis engaged with the role of the state, the current regulatory bodies and censorship, illustrating how their policies have influenced Chinese cinema, both aesthetically and thematically. It is the assertion of this chapter that mainland China's most important policies include those surrounding censorship, film licencing regulations and the Promotion Law of the Chinese film industry.

The production chapter engaged with the current characteristics of Chinese film production between 2010 and 2016. The chapter analysed the operational practices employed within the Chinese film production sector and introduced the main industry participants. Within the chapter's analysis, a section was dedicated to analysing the propensity of Chinese film producers to favour certain popular – and indeed profitable – genres and film types, and the consequent homogenising effect this has had on film production. The chapter also explored the budgeting and financing schemes currently employed in Chinese film production, as well as the strategies of co-operation with different countries, both in terms of distribution partnerships and financial co-

productions. The chapter then engaged with the current issues currently facing contemporary film production and explored some potential solutions to these issues.

The distribution chapter provided a structural analysis of some of the key features and attributes of China's film distribution sector. Within the chapter, analysis was dedicated to the current characteristics and developments within Chinese film distribution and the operational practices within the distribution sector. The chapter explored the innovations introduced by online distribution, scrutinised promotional practices such as the roadshow and examined the various distribution deals made between distributors and producers, for example, the minimum guarantee method. Finally, the chapter examined with some of the obstacles and limitations currently facing China's film distribution sector and discussed possible means of engaging with these issues.

The exhibition chapter aimed to help scholars and industry personnel better understand the development of Chinese theatre chains and other exhibition practices employed in contemporary China. The chapter provided analysis on China's current exhibition practices, engaging with a variety of related subject matter, including the rise of cinema chains, contemporary cinema facilities, box-office revenue and ticket pricing. The chapter then discussed the main industry participants, their operation procedures, and screening schedules. Following this, a section was dedicated to exploring some of the current problems and difficulties within the Chinese exhibition sector, the upshots of these problems and potential strategies for further development within the sector.

The Chinese film industry experienced accelerated development between 2010 and 2016. However, the 48.7% increase in box-office revenue taken between 2014 and 2015 is unlikely to reoccur in the near future, and the Chinese film market will likely reach its development ceiling when it achieves over 14,000 cinemas and 80,000 screens (as stated by ZENG Maojun, Jia, 2018).

Indeed, China's is a vigorous but immature film industry, which has led to a number of industry participants taking advantage of the financial opportunities afforded by this somewhat undeveloped industry. Indeed, in this state of immaturity, there are great opportunities for investment and development, granting participants the opportunity to capitalise on a still emergent industry. However, once the industry reaches maturity, the

rate of growth will likely decelerate, and the market will become increasingly saturated, standardised and regulated.

Many of the problems faced by the Chinese film industry today stem from the industry excessively imitating the Soviet model prior to the 1980s and the Hollywood model in 1990s to 2000s. As a result of China's autocratic policies and censorship requirements, other models and approaches need to be considered and new hybrid methods need to be introduced that best suit China's unique political, social and economic conditions. However, blindly injecting other pre-established models into China's filmmaking infrastructure has produced a weak foundation on which to build a sustainable and competitive industry.

While China naturally cannot turn back the clock in order to re-establish and rebuild its film industry foundations, the industry must introduce measures that will ensure and support secure and sustainable future development. In such a situation, government policy plays an essential role. However, policies within the Chinese film industry tend to be reactionary rather than proactive, responding to situations after they have happened as opposed to making systematic policies from a macro perspective that aim to guide future development.

Fortunately, Chinese cinema has a strong domestic audience, which will likely not become over-saturated for another ten years at least. In addition, online platforms are also developing rapidly and have the support of a large number of Internet users. Such technology provides important support to the film industry, meaning that the future of China's film industry remains very promising.

After examining developments within the Chinese film industry from the perspective of production, distribution, and exhibition, it is the assertion of the author that developments within the film industry and its future direction can and should be shaped by bold and progressive governmental film policy. The industry need to commission scholars to produce further research on a variety of issues relating to the contemporary Chinese film industry, research that will inform future policy development. While this thesis provides a timely study of contemporary trends within the Chinese film industry, there remains space for further research on future developments within the industry. Indeed, further research on some of the issues raised within this study may prove useful,

research exploring the 2020s, examining how policies have changed in that time. For example, further research is needed in order to examine the impact of the Film Promotion Law, which took effect in 2017.

While the contemporary research, both domestically and from abroad, has recognised the success of the Chinese film industry over the past few decades, they are also keenly aware that the Chinese film industry is in somewhat of an economic bubble that may well burst in the near future. The industry, therefore, needs to consolidate and employ sustainable measures to ensure continued development. This provides new opportunities for additional research and investigation, studies dedicated to such sustainable approaches to continued industry momentum and development. These are genuine questions for researchers, myself included, to consider with regards to how the Chinese film industry can develop in the future, and more research should be dedicated to examining how the Chinese film industry can take advantage of its creative successes in order to scale up and better compete in what should be an age of opportunity. It is the assertion of the author, that future economic development will come from more varied and better quality content being created by Chinese filmmakers, this will allow Chinese films to become more international in scope and thus better suited for exportation.

Thus, by way of conclusion, I would like to summarise the main findings of this thesis, findings that elucidate upon my initial research question; what are the main trends and features of the Chinese film industry between 2010 and 2016? It is hoped that this thesis has contributed not only to the current research on Chinese Cinema and but also Film Industry studies more broadly. This thesis ultimately provides a detailed analysis of the systematic structures of the Chinese film industry, one that will hopefully prove useful to both scholars and industry personnel in shaping future developments within the Chinese film industry.

Thesis Main Findings Summary

Generally speaking, the characteristic features of the Chinese film industry between 2010 and 2016 have been the industry's accelerated growth, the continued role of the

government in overseeing industry practices, and the still immature nature of the Chinese film industry.

1. Growth is the cardinal feature of the Chinese film industry between 2010 and 2016.

- *The Chinese film industry has experienced accelerated growth, generally speaking, but the speed of growth has not been consistent. Between 2010 and 2015, China experienced incremental growth for consecutive years. However, the rate of growth decelerated in 2016 and has maintained steady momentum since 2017.*
- *The main driving force of film industry growth comes from the Chinese domestic market, which still demonstrates plenty of room for future growth and development.*
- *Investment in the film market has been steadily increasing between 2010 and 2016, and non-industry acquisitions are rising.*
- *Chinese cinema has diversified significantly between 2010 and 2016. Chinese filmmakers have engaged in various experimental filmmaking and industrial practices, producing new, hybrid genres and production styles, such as the self-produced online drama series, the micro movie, the light film, and the reality-show film.*
- *Furthermore, China's film production sector has experienced substantial financial growth. Public sector investment in film production continues to grow, including an increasing amount of foreign investment, and the film production market has expanded accordingly. Generally speaking, the market share of production studios has witnessed near continuous growth since 2010, especially those that have embraced vertical and/or horizontal integration.*

2. Governmental involvement and influence remains a significant feature of the Chinese film industry, not only between 2010 and 2016, but throughout the history of the Chinese film industry.

- *The Chinese government dictates the policies and guidelines that govern the Chinese film industry, and developments within the industry are largely determined by governmental decision-making.*

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- *As China increasingly integrates private market practices, the government's role within the film industry has not, and is unlikely to, change. Rather, their infrastructures, organisation and management practices have undergone transformations and developments.*
 - *Since the integration of market practices, the government has been tasked with balancing its dual role as both party leader and market facilitator. In order to best juggle these binary, and to a certain extent, contradictory roles, party members must fully understand the role of the state in this new economic environment and should limit administrative intervention to best aid the development of free market practices.*
 - *Between 2010 and 2016, the Chinese government would oversee all aspects of Chinese film production. The state would also supervise the marketisation of film production, governing all the key stages of reform and transition, such as the diversification of ownership and the privatisation of SOEs. The government's overseeing of China's transition towards the market economy would also lead to the internationalisation of the Chinese film industry. Here, the government would be instrumental in forging co-production treaties with other countries, developing the regulations dictating foreign investment in film production and establishing censorship laws determining the acceptability of cinematic output. Additionally, the government would oversee China's technological evolution, encouraging investment and development into innovative filmmaking technologies such as 3D, 4D, virtual reality and augmented reality, as well as offering support to Internet companies working in and alongside film production.*
 - *As with Chinese film production, between 2010 and 2016, Chinese film distribution would be under the jurisdiction of the state, who would oversee all aspects of the distribution process and supervise all new developments and reforms. State owned enterprises would continue to hold a virtual monopoly within Chinese film distribution during the period under observation, despite the increasing activity of private enterprises.*

3. Between 2010 and 2016, the Chinese film industry remained in state of relative immaturity.

- *Due to the fact that the Chinese film industry has developed at a much faster rate than the regulations that govern it, flaws within policies and regulations have become increasingly apparent. Therefore, the timely adjustment of policies has become somewhat of a necessity. However, at the same time, policy adjustments that match the speed of development within the film industry risk producing instability and turbulence given the sheer pace of development.*
- *Rapid developments within the Chinese film industry have exposed flaws and weaknesses within the original policies initiated as China embraced greater economic openness. These original policies were built around strategies of transition, and were characteristically reactionary and short-sighted, responding to the immediate situation with little thought given to long-term development. Furthermore, there was little transparency as to how regulations and policies might best be implemented and, as a result, policies often lacked foresight, consistency and effectiveness. Following the promulgation of certain administrative regulations, supplementary regulations would often be required shortly thereafter, indicating that the government lacked a clear strategy when formulating industrial policies.*
- *The Chinese production system remains in somewhat of an undeveloped state, despite the fact that production is arguably more open than it has been since the nationalisation of the film industry in 1949. Notwithstanding China's regular position on top of global rankings for both the number of films produced and the total box-office revenue generated, the quality of the films produced in China is, at best, variable. One of the reasons for the inconsistent quality of Chinese films is a shortage of skilled labour. Industrial personnel typically lack adequate formal training for specialised roles, especially live broadcasting. The number of specialists with adequate training and experience is currently insufficient to support China's large film production sector. While the rate of unskilled labour within the film industry is relatively high, skilled roles such as lighting technicians, make-up artists, sound mixers/engineers and foley artists are currently deficient.*

China is thus in need of better training programs and facilities, films schools and educational institutes dedicated to teaching the technical aspects of film production.

- *Furthermore, China's copyright protection laws are still somewhat rudimentary and in need of modernisation to better incorporate notions of intellectual property.*
- *Although Chinese cinema has diversified to a significant degree, further variety, both in terms of genre and forms of niche cinema – whether arthouse or independent cinema, etc. – would advance the Chinese film market. Currently, there is a clear preference for entertainment and profit-oriented cinema and a relative lack of alternatives.*
- *Since 2010, excessive capital in the Chinese film market has inflated the industry, potentially causing an economic bubble. Regulating the use of capital in the film industry has become an urgent necessity in China.*
- *To a significant degree, China's current distribution system remains in a relatively rudimentary state, and many consider distribution to be the weakest link in the industry chain. There are a number of reasons for this: Firstly, the contemporary Chinese film industry is very profit oriented, often at the expense of alternative cinematic pursuits, whether artistic, social or otherwise. Consequently, major theatre chains are reluctant to accept films not made by prominent industry personnel or those deemed to have little chance of turning a profit. This means that more niche and low-budget films struggle to gain cinematic exhibition, which ultimately hampers the diversification of Chinese cinema.*
- *Additionally, while new, online distribution practices offer new opportunities for alternative and non-mainstream filmmakers to get their films exhibited, and indeed, China's filmic output has diversified significantly since 2010 thanks to these new and innovative distribution methods, there is still room for improvement. Current online distribution models do not do enough to support artistic experimentation, and more could be done to create a sustainable distribution model conducive to all types of cinema.*
- *Furthermore, the distribution sector is hindered by China's current release*

schedule practices. The present policies regarding the release window for Chinese films is unclear and changeable depending on the film. Under the existing release window system, when, and for how long, a film is exhibited is heavily dependent on personal negotiations between producers, distributors and exhibitors, often resulting in a lack of transparency and a some potentially corrupt practices. Current guidelines on the release window are inadequate, and, no clear regulations exist on the subject.

- The Chinese film distribution sector is currently being encumbered by some notable issues. These include the homogenisation of distributed films. Here, distributors typically release films of a similar genre/style/tone to those that have already proved popular with audiences, thereby reducing risk. Other issues include schedule clashing, in which distributed films are not able to achieve their box-office potential due to the congested nature of Chinese film exhibition. Additionally, and perhaps most egregiously, the distribution sector has faced allegations of exaggeration within their promotion tactics. It has been alleged that distributors have utilised fabricated figures and unsubstantiated public opinion to sell their films and acquire additional space in the screening schedule.*
- The efficiency of cinema operations determines the success of any given film in China. However, only the top ten cinema chains out of a total of 48 currently achieve high operation efficiency, indicating a potential oligopoly, due to their rapid expansion over the last decade.*
- The increasing-emphasis placed upon box-office revenue is doing more harm than good to the Chinese film industry. Consequently, the revenue structure of the Chinese film industry should be rebalanced, shifting from a 'long tail' approach to a 'thick tail' one, from 80% box office and 20% non-box office to 20% box office to 80% non-box-office.*
- Exhibitors play a prominent role within the Chinese film industry. The reasons for this are twofold; firstly, the exhibitor takes the lion share – approximately 50% - of all box-office revenue taken from films exhibited in China. The exhibitor's stake is therefore roughly equal to that of the producer's and distributor's combined. Secondly, exhibitors control the scheduling of films in China, which can*

significantly impact upon the box-office returns of any given film. This privileged control over scheduling has consequently granted exhibitors additional bargaining power with distributors and producers with regards to their aforementioned share of box office revenue. These factors combine give the exhibitor a disproportionate amount of power within the Chinese film industry.

Additional important trends within the Chinese film industry include *Marketisation, Technology, and Internationalisation*:

1. Marketisation is heavily prioritised with the Chinese film industry.

- *Regardless of whether they are state- or privately-owned, companies within the Chinese film industry must strive towards vertical integration, which will allow them to operate the entire chain of the industry and improve efficiency and productivity while reducing costs. The degree of integration will differentiate the future of film companies in China.*
- *Some specific private conglomerates were named in the thesis, including the Wanda Group, Baidu, Alibaba and Tencent, these conglomerates developed by simultaneously embracing vertical integration and horizontal integration.*
- *Horizontal integration can increase market concentration, meaning that most of China's films will be produced by a smaller number of larger production companies. Horizontal integration creates corporate synergy, allowing film producers to maximise their market power and minimise competition, creating economies of scale and ultimately reducing risk. Typically, larger, more financially stable production companies have the resources to attract international stars and explore more novel and innovative film production methods, such as 3D. Horizontal integration will ultimately position Chinese production companies on par with Hollywood's 'Big Six', allowing them to compete with their international counterparts in both the national and global markets.*
- *Private-owned production companies have acquired a significant stake of the Chinese film production sector thanks to recent investment from large real estate companies, such as the Wanda Group, and Internet companies, such as Baidu, Alibaba and Tencent. Yet, the market remains relatively competitive, and it is*

likely that future developments will see production companies further embrace horizontal and vertical integration.

- Many of China's major film distributors have been striving for horizontal integration in order to increase their market concentration. Indeed, it is widely assumed that in order to challenge the dominance of the two leading state-owned distributors (China Film Group and Huaxia), private firms, through mergers, alliances and acquisitions, must consolidate and expand. Consolidation enable distributors access to a wider array of distribution channels and marketing resources, therefore maximising potential profits. Consolidation also enables Chinese film distributor to further reduce their distribution cost and increase efficiency.*
- Since the introduction of cinema chains in 2001, mergers and acquisitions have transpired with increased frequency. Horizontal integration became increasingly common between 2010 and 2016, ultimately resulting in 48 different cinema chains operating in China by the end of 2016. However, the rate of expansion and the profit of new cinemas has diminished when compared to the introductory years of cinema chains in the early 2000s. This is, in part, due to increased rental costs and intensified competition.*
- The tastes of Chinese audiences are becoming increasingly diversified and regionally specific. Tastes vary from region to region and are strongly linked to the economic development of the area. The growth of the film market is also highly dependent on a given region's economic and cultural standing. From 2010 to 2015, the film markets of Tier One and Two cities have become increasingly saturated. While Tier Three and Four areas tend to be less economically developed than their Tier One and Two equivalents, they nevertheless contribute more substantially to the growth of the entire Chinese film market. So-called 'small town' audiences can thus be considered a major market force for future development within the Chinese film market.*

2. Technological development has also accelerated within the Chinese film industry between 2010 and 2016.

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- *The Chinese film industry has increasingly embraced innovations both in terms of financing and in the adoption of Internet services. Such innovations have contributed significantly to the Chinese film industry being recognised as a key industry leader.*
 - *'Internet Plus' could drive film companies to split into separately listed companies and go public individually.*
 - *Big data analysis has become increasingly prevalent within the Chinese film industry and used to drive decision optimisation. Big data analysis allows companies to acquire masses of data through which to make calculated market predictions, reducing risk and allowing them to produce products that meet audiences' desires. The adoption of big data has also improved the integrity of the Chinese film industry with more transparent and objective information shared among stakeholders in the industry.*
 - *One noteworthy trend within Chinese film distribution during the years 2010 to 2016 has been the industry's considerable technological advancement. Online film distribution has come to prominence in China, proving incredibly popular with producers, exhibitors and audiences alike. Online film distribution offers a number of advantages over conventional modes of distribution. For one, online film distribution has led to a decline in piracy. The low-cost and expedient nature of online distribution has cultivated new viewing habits and practices within contemporary audiences. Whether watching the latest films online via streaming services or buying cinema tickets online, the convenience and reduced costs of online film distributors has proven appealing to Chinese audiences, and thus reduced their reliance on illegal copies.*
 - *Online film distribution may also prove to offer a solution to the disproportionate amount of power currently possessed by the exhibition sector. Online distribution can potentially have a huge impact on exhibitors' release schedules thanks to increasing prominence of pre-paid the film tickets. In addition, because rising popularity of online modes of exhibition, the traditional release schedule will likely change, and the window between cinema exhibition and a given film's release online and/or on DVD/Blu-ray will likely shorten.*

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- *Online ticketing became the primary method of selling movie tickets in China after 2015. The success of online ticketing was assisted by large subsidies granted to ticket vendors. However, since 2016, the number of these subsidies has substantially declined.*

3. Internationalisation is the last, but by no means least, contemporary trend with the Chinese film industry:

- *Co-productions have become the most common means through which overseas production companies have entered the Chinese film market and circumnavigated China's stringent import quota system. It is likely that, while these quotas are in place, international productions companies will continue in this vein for the foreseeable future. During the period under investigation, 2010-2016, China would establish and participate in numerous co-production treaties with other nations.*
- *Overseas film producers and industry personnel are increasingly realising the market potential of the domestic Chinese film market, and China is quickly becoming one of the most important and sought after markets for overseas productions.*
- *Chinese enterprises, like Wanda, are increasingly entering the international market at the all stages of the industry chain, from production, to distribution and exhibition.*

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Filmography

12 Citizens/ 十二公民(Xu Ang, 2015)
12 Angry Men (Sidney Lumet, U.S., 1957)
20 Once Again/重返二十岁 (Leste Chen, 2015)
Aftershock/唐山大地震 (FENG Xiaoning, 2010)
American Dreams in China / 中国合伙人 (Peter Chan, 2013)
Ash is Purest White/江湖儿女 (JIA Zhangke, 2018)
Assembly/集结号 (FENG Xiaoning, 2007)
A Hero or Not/ 煎饼侠 (DONG Chengpeng, 2015)
A Touch of Sin / 天注定 (JIA Zhang ke, 2013)
A Wedding Invitation/分手合约 (Ki Hwan Oh, 2013)
A World Without Thieves / 天下无贼 (FENG Xiaogang, 2003)
Avengers, The (Joss Whedon, 2012)
Banquet, The / 夜宴 (FENG Xiaoning, 2006)
Batman franchise
Battleship (Peter Berg, 2012)
Back to 1942/1942 (FENG Xiaogang, 2012)
Beijing Bicycle / 十七岁的单车 (Wang Xiaoshuai, 2001)
Breakup Buddies/心花路放 (NING Hao, 2014)
Bride Wars (Gary Winick, U.S., 2009)
Bride Wars / 新娘大作战 (Tony Chan 2015)
Bright Eleven: Old Boys, The / 11 度青春– 老男孩 (XIAO Yang, 2010)
Brokeback Mountain (Ang Lee, 2005)
Buddha Mountain/ 观音山 (LI Yu, 2011)
Capitan America: Civil War (Anthony Russo and Joe Russo, 2016)
Cell Phone/ 手机 (FENG Xiaogang, 2003)
Cherish Our Love Forever/ 将爱情进行到底 (ZHANG Yibai, 1998)
Chongqing Hot Pot/ 火锅英雄 (Yang Qing, 2015)
Chongqing Negotiation/ 重庆谈判 (LI Qiankuan, XIAO Guiyun, ZHANG Yifei, 1993)
Chronicles of the Ghostly Tribe/ 九层妖塔 (LU Chuan, 2015)
Coffin in the Mountain, The / 心迷宫 (XIN Yukun, 2015)
Continent, The / 后会无期 (HAN Han, 2014)
Crash Landing/ 紧急迫降 (ZHANG Jianya, 1999)

Crazy Stone/疯狂的石头 (NING Hao, 2006)

Crouching Tiger, Hidden Dragon/卧虎藏龙 (Ang Lee, 2000)

Daoshi Chushan/道士出山 (ZHANG Tao, 2015)

Detective Conan: Sunflowers of Inferno / (名探偵コナン 業火の向日葵(Kobun Shizuno, 2015)

Devil and Angel/恶棍天使 (DENG Chao, YU Baimei, 2015)

Double Team (Tsui Hark, 1997)

Dream Collector,The/拾梦人 (LI Mi, 2017)

Dream of Red Mansions,The/红楼梦 (LI Shaohong, 2010)

Emperor's Holidays/爸爸的假期 (WANG Yuelun, 2015)

Ever Since We Love / 万物生长 (LI Yu, 2015)

Eternal Love/将爱情进行到底 (ZHANG Yibai, 2011)

Expendables 2,The (Simon West 2012),

Expendables 3,The (Patrick Hughes 2014)

Faceoff (John Woo, 1995)

Fantastic Adventure/ 终极大冒险 (SUN Lijun, 2013)

Farwell My Concubine / 霸王别姬 (CHEN Kaige, 1993)

Fatal Decision/生死抉择 (YU Benzhen, 2000)

Finding Mr. Right / 北京遇上西雅图 (XUE Xiaolu, 2013)

Firestorm / 风暴 (Alan Yuen, 2013)

Fit Lover/爱情左灯右行 (ZHANG Jianya, 2008)

Fleet of Time / 匆匆那年 (ZHANG Yibai, 2014)

Flowers of War,The/金陵十三钗(ZHANG Yimou, 2011)

Flying Swords of Dragon Gate / 龙门飞甲(Hark Tusi and ZHANG Zhiliang, 2011)

Forbidden Kingdom,The (Rob Minkoff, 2008)

Forever Enthralled / 梅兰芳 (CHEN Kaige, 2008)

Forever Young/ 栀子花开 (HE Jiong, 2015)

Founding of a Republic,The/建国大业 (HUANG Jianxin and HAN Sanping, 2009)

Fugitive,The (Andrew Davis, 1994)

Go away Mr. tumour / 滚蛋吧，肿瘤君(HAN Ting, 2015)

Goodbye Mr. Loser/夏洛特烦恼 (YAN Fei, PENG Damo,2015)

Go LA LA Go! / 杜拉拉升职记 (XU Jinglei, 2010)

Great Wall,The/ 长城 (ZHANG Yimou, 2016)

Hard Boiled (John Woo, 1992)

Hero/英雄 (ZHANG Yimou, 2002)

House of Flying Daggers/十面埋伏 (ZHANG Yimou, 2004)

I Am Not Madame Bovary/我不是潘金莲 (FENG Xiaogang, 2016)

If You Are the One/非诚勿扰 (FENG Xiaogang, 2008)

IP Man 3/叶问3 (Wilson Yip, 2015)

Independence Day 2 (Roland Emmerich, 2015)

Infernal Affairs/无间道 (Andrew Lau and Alan Mak, 2002)

Impossible/不可思异 (SUN Zhou, 2015)

Journey to the West: Conquering the Demons/西遊·降魔篇 (Stephen Chow, and Derek Kwok, 2013)

Jing Tian Dong Di/惊天动地 (SHEN Dong and WANG Jia, 2009)

Just for Fun /就是闹着玩儿的 (LU Weiguo, 2012)

Killer, The (John Woo, 1989)

Kung Fu Hustle/ 功夫 (Stephen Chow, 2004)

Kung Fu Panda 3 (Alessandro Carloni and Jennifer Yuh Nelson, 2016)

Last: Naruto, The (Tsuneo Kobayashi, 2014)

League of Gods/ 3D 封神榜 (Koan Hui and Vernie Yeung, 2015)

Left Ear, The /左耳 (SU Youpeng/ Alex Su, 2015)

Let The Bullets Fly/ 让子弹飞 (JIANG Wen, 2010)

Life of Pi (Ang Lee, 2012)

Lord of the Rings, The (Peter Jackson, 2001-2003)

Lost in Hong Kong / 港囧 (XU Zheng, 2015)

Lost in Thailand / 泰囧 (XU Zheng, 2012)

Love is Not Blind / 失恋33天 (TENG Huatao, 2011)

Love of the Hawthorn Tree, The/ 山楂树之恋 (ZHANG Yimou, 2010)

Life is A Miracle: Love for Life/ 最愛 (GU Changwei, 2011)

Lost on Journey / 人在囧途 (Raymond Yip, 2010)

Man of Tai Chi / 太极侠 (Keanu Reeves, 2013)

Martian, The (Ridley Scott, 2015)

Mermaid, The / 美人鱼 (Stephen Chow, 2016)

Miss Partners/ 梦想合伙人 (ZHANG Taiwei, 2015)

Mission Impossible II (John Woo, 2000)

Mojin: The Lost Legend / 寻龙诀 (WU Ershan, 2015)

Monkey King, The/ 西游記之大鬧天宮 (Cheang Pou-soi, 2014)

Monster Hunt/ 捉妖记 (Raman Hui, 2015)

Mulan (Barry Cook and Tony Bancroft, 1998)

My Best Friend's Wedding (P.J. Hogan, U.S., 1997)
My Best Friend's Wedding / 我最好朋友的婚礼 (CHEN Feihong, 2016)
My Old Classmate/ 同桌的你 (GUO Fan, 2014)
Never Gone/ 致青春•原来你还在这里 (ZHOU Tuoru, 2016)
Now You See Me (Louis Leterrier, 2013)
Once Upon a Time in China film series (Tsui Hark, 1991–1997)
One Hundred Thousand Bad Jokes/ 十万个冷笑话 (LU Hengyu and LI Shujie, 2014)
Only You (Norman Jewison, U.S., 1994)
Only You/ 命中注定 (ZHANG Hao, 2015)
Out of the Inferno/ 逃出生天 (Danny and Oxide Pang, 2013)
Painted Skin: The Resurrection/ 画皮 II (WU Ershan, 2012)
Red River Valley/ 红河谷 (FENG Xiaoning, 1997)
Red Snow/ 极地营救 (ZHANG Jianya, 2003)
Raise of the Red Lantern / 大红灯笼高高挂 (ZHANG Yimou, 1991)
Running Man / 奔跑吧兄弟 (HU Jia, CEN Junyi, 2015)
Seek McCartney / 寻找罗麦 (WANG Chao, 2018). *Seek McCartney* (previously entitled “*Looking for Rohmer*”)
Silent Separation / 何以笙箫默 (YANG Wenjun, HUANG Bin, 2015)
So Young / 致我们终将逝去的青春 (ZHAO Wei, 2013)
Song of the Phoenix/ 百鸟朝凤 (WU Tianming, 2013)
Stand by Me Doraemon / スタンド・バイ・ミードラえもん (Takashi Yamazaki, Tony Oliver and Ryuichi Yagi, 2014)
Still Life/ 三峡好人 (JIA Zhangke, 2006)
Surprise / 万万没想到 (Jiaoshou Yi Xiaoxing, 2015)
Sweet Sixteen/ 夏有乔木，雅望天堂 (Cho Jin-Kyu, 2015)
Taking of Tiger Mountain 3D, The/ 智取威虎山 (Tsui Hark, 2014)
Three Idiots (Rajkumar Hirani, 2009)
Time and Tide / 顺流逆流 (Tsui Hark, 2000)
Time Raiders/ 盗墓笔记 (Daniel Li, 2016)
Tiny Times 4.0 / 小时代 4 (GUO Jingming, 2015)
Titanic 3D (James Cameron, 2012)
Transformers: Age of Extinction (Michael Bay, 2014)
True Legend/ 苏乞儿 (Yuen Woo-ping, 2010)
True Lies (James Cameron, 1994)
Promise, The / 无极 (CHEN Kaige, 2005)

Storm Riders, The/雄霸天下 (Hsu Chin-liang, 2002)
We are Born in China/我们出生在中国 (LU Chuan, 2016)
What Women Want (Nancy Meyers, 2000)
What Women Want / 我知女人心 (CHEN Daming, 2011)
Where are we going? Dad Season 1 and 2 / 爸爸去哪儿, 第一季和第二季 (CAI Dikui, LIN Yan, 2014, 2015)
White Countess, The (James Ivory, 2005)
Wolf Totem/狼图腾 (Jean-Jacques Annaud, 2015)
Wolf Warriors II / 战狼 2 (WU Jing, 2017)
Yellow Earth/黄土地 (CHEN Kaige, 1984)
Yesterday Once More/谁的青春不迷茫 (YAO Tingting, 2016)
You Are the Apple of My Eye/ 那些年, 我們一起追的女孩 (Giddens Ko, 2011)
Young Detective Dee: Rise of the Sea Dragon / 狄仁杰之神都龙王 (Tsui Hark, 2013)

Appendix

Appendix 1. The Dynamic Development of Policies and Key Years within Development of the Contemporary Chinese Film Industry

1.1 The Dynamic Development of Policies within the Chinese Film Industry

Prior to 1993

From 1949 to the early 1990s, the Chinese film industry implemented a planned economic structure inspired by that of the Soviet Union. Under this system, the government would allocate production funds to studios and assign them specific roles and duties. Films were then distributed by the state-run Central Pictures Corporation (Chen & Xian, 2015). Following the economic reforms of the mid-to-late 1980s, the film industry would begin to gradually shift towards a private economic model. However, the Ministry of Radio, Film and Television, founded in 1986, and its later iteration, SARFT would continue to issue meticulous regulation ordinances (1993, 1996, 2001 and 2006) in an effort to monitor and control the films produced and exhibited in China (Li T. , 2018, 118).

A significant re-classification of the film industry came in 1984, when the state argued, for the first time, that cinema served as an integral part of the culture industry rather than merely functioning as an instrument for the dissemination of government ideology. Following this statement, a new “self-responsibility system” was introduced. Under the self-responsibility system, the government withdrew financial aid to the studios, which compelled them to seek private financing for their productions. However, given that these studios had been functioning under an institutional structure that closely resembled the Soviet model, they had little to no experience of operating under such market conditions. As a result, these reforms produced massive upheaval to Chinese film production. Before the reforms, Chinese film studios were still making films in accordance with the annual plans of the Film Bureau, and received a flat fee of RMB 700,000 (USD 109,375) per title from the China Film Corporation for the rights (Aranburu, 2017, 5; Xiao & Zhang, 2002).

Later that year, while the studios continued to receive profits from the China Film

Corporation, they would instead obtain a fee of 9000 RMB per print or, alternatively, split box office revenue based upon a pre-agreed percentage. This latter method, however, would put a lot of additional pressure on the studios to produce box office draws and turn a profit (Song, 2009; Zhu, 2003; Aranburu, 2017, 5).

In January of 1985 the China Film Bureau held a professional conference from which two sub-reforms were initiated. The first being a price reform that sought to transform the current centralised, single-priced system into one that would allow for adjustments based upon each individual film and their potential market value. The second major initiation was an enterprise reform, which granted studios greater autonomy and financial incentives in order to increase productivity (Zhu, 2003, 73). The state also shifted the responsibility of film distribution from the centralised China Film Corporation to local distributors functioning as intermediaries between producers and local exhibitors (Aranburu, 2017, 6).

In January of 1986, jurisdiction of the Film Bureau was transferred from the Ministry of Culture to the newly commissioned Ministry of Radio, Film & Television, also known as the RFT (Xiao, 2004). However, reforms were only made at state level, resulting in organisational disorder and quarrelling between provincial institutions (Aranburu, 2017, 6).

However, rather than easing the ensuing chaos produced by provincial conflict, the RFT would fan the flames of uncertainty by issuing “Document 975”, a regulatory policy that eradicated compulsory price limits and allowed the studios to share box-office profits with distributors (Zhu & Rosen, 2010; Aranburu, 2017, 6).

By the end of 1986, the government began funding “main melody” films, also known as central message films. The “main melody” film was a form of patriotic cinema espousing the ideology of the state. Such film would commemorate key public occasions such as party anniversary celebrations or memorial events, and were typically viewed as propaganda film, especially in the West. The government provided between one and two million RMBs per year towards the production of these films, and the “main melody” film would subsequently come to make up to 25 percent of China’s total annual output (Zhu, 2003; Aranburu, 2017, 7).

In 1993, the RFT issued the “Document 3 – Suggestions on the Deepening of Chinese Film Industry’s Institutional Reform”. This new document was widely considered highly progressive in its market-oriented, distribution-centred reforms. Document 3 sought to connect the prices of both film prints and tickets to the current market environment (Zhu, 2003; Su, 2016; Aranburu, 2017, 9).

1994-2001

In January 1995, the RFT would issue a reform in response to the recent surge of films produced with private finance. This new reform introduced a more relaxed approach to the licensing policy for film production. As a result, investors, even those outside of the film industry, were granted the right to coproduce if s/he could cover at least 70 percent of the production costs. In an effort to replicate the western distribution model, the government also introduced a system of profit and losses among producers, distributors, and exhibitors (Aranburu, 2017, 9-10).

The government, concerned about the rising success foreign films and decline of domestic productions, which had witnessed a record 20 percent decline in 1995 (Aranburu, 2017, 11), introduced restrictions on imported cinema. Attempts to regulate the number of foreign films exhibited in China would be taken further when, in 1995, the RFT issued the “9550 project”, a quota system limiting the exhibition of foreign imports to 10 films per year between 1996 and 2000. The 10 films were selected by the government and would invariably be American films, as well as those made in Hong Kong, which was still considered “foreign” (Donald, Keane, & Yin, 2002; Aranburu, 2017, 18). The “9550 Project” also deemed that distribution rights for these foreign films be granted to ‘studios that were involved in the production of “quality picture films” which the government was thus subsidizing indirectly’ (Aranburu, 2017, 18). Further amendments to film policy followed in March of 1998, when two new film bodies; the State Administration of Radio, Film and Television (SARFT) and the Ministry of Information Industry were introduced, superseding the Ministry of Radio, Film and Television (Aranburu, 2017, 12).

In the context of the widespread infrastructural changes and economic developments that took place throughout the mid to late 1980s and 1990s, the Chinese film industry underwent a period of accelerated industrialisation. In order to capitalise on the

developing film industry, the years succeeding the millennium witnessed a series of new policies, documents and regulations administered by the county administrative departments of the government. These new policies sought to promote further developments within the film industry and signalled the government's increasing openness, as shown in the table below. Reforms restructured the production and management of state-owned film institutions, while others sought to foster increasing cooperation between domestic investors, before expanding to incorporate those Hong Kong and Taiwan, and later foreign capital. These reforms impacted on virtually every aspects of the filmmaking process, from production, distribution to exhibition. By expanding film production beyond national boundaries and encouraging diverse and multi-national financial investment, ownership and production modes, the film industry was able to expand exponentially (Yin, 2019, 29).

After 2002

In 2002, SARFT decreed that the state-owned China Film Group apportion its centralised distribution authority between the municipal distribution companies. Further steps towards privatisation occurred in 2003, when the *"Temporary Regulations on Access to Film Production, Distribution and Exhibition"* granted private studios the same privileges and obligations as those previously enjoyed exclusively by state-owned studios. Consequently, the ensuing years saw a significant increase in the development of new private studios (Song, 2009), and many of the studios that had previously held dominant positions within the industry now cease to exist (Aranburu, 2017, 12).

China would become a member of the World Trade Organization (WTO) in December 2001 following a lengthy negotiation process. These negotiations necessitated that previous regulations be amended so that China might better integrate into the world market. Consequently, the government were obliged to increase the import quota 'to 20 revenue-sharing foreign films per year' (Aranburu, 2017, 18). However, even with the relaxation of import quotas, there were dissenting voices in the American authorities who deemed these amendments insufficient (Zhang R. , 2008).

Throughout the 2000s, China and the USA would clash over issues of import restrictions and free enterprise, with the WTO favouring the latter in their case against China in 2007. The WTO would reject China's appeal against the ruling in December 2009, decreeing

that China discontinue regulatory policy that obliged U.S. producers to utilise Chinese state-owned distribution companies. This ruling would ultimately dismantle the monopoly formerly held by the China Film Group and Huaxia Film Distribution. However, as Aranburu states, the WTO's ruling overlooked the laws surrounding revenue sharing for foreign films and the current quota system limiting imported films to twenty per year. The WTO also concurred that the state had the right to prohibit foreign films deemed objectionable (Zhang Y. , 2012; Aranburu, 2017, 19).

The Chinese government ultimately deemed regulation within the film industry a necessity needed to protect Chinese culture and traditions. One of the most important political values fundamental to Chinese culture is the notion of unity, both in terms of connection to the past, and an interpersonal unity born out of Confucianism, that has traditionally been at the heart of Chinese culture. Consequently, with an increasing level of external cultural influences entering China through imported cinema and other cultural products, the government felt the need for regulation in order to preserve China's longstanding cultural traditions.

1.2 Key Years within Development of the Contemporary Chinese Film Industry

1993

The Ministry of Radio, Film and Television (hereafter, the RFT) issued 'Document 3 – Suggestions on the Deepening of Chinese Film Industry's Institutional Reform', widely considered a landmark reform in terms of film distribution. Document Three's significance lay in the fact that it was the first reform to connect the prices of both film prints and theatre tickets to the market. However, as Document Three required more substantial institutional reform within the film sector more broadly, distribution companies in various provinces made attempts to break through the monopoly of local governments and form aligned chains to profit from film distribution.

1995

The RFT issued the '9550 project', a quota system limiting the exhibition of foreign imports to ten 'high quality' films per year between 1996 and 2000 (Hemelryk Donald, Hong and Keane 2014). The '9550 project' also linked the imports to these "domestic quality pictures", by giving the rights –and profits – from one import to the studio that produced one quality picture. All this steered away the private investors who, being much more profitable, shifted to producing TV dramas. (Zhang 2008; Zhu 2002)

1996

In March of 1996, the RFT held what was known as the 'Changsha Meeting/Changsha Conference'.

Scandalised by risqué literature, politically explicit and exploitable artworks and pirated rock music, the state launched a program to criticise what they called "spiritual pollution". The government started sponsoring public viewings of biographies of socialist heroes and model communist members. Fifteen percent of all screen time would now also be given to films specially selected by the ministry which represented the core values of the main melody films (Nilsson 2015). These movies would be especially focused on historical events, mainly for the education of children, peasants and the army. In 1995, the government would sponsor a total of 146 films, an increase from the 133 films sponsored in 1990. However, this figure would eventually fall to 83 films by 2000.

1998

Major theatre chains were established in provinces such as Sichuan, Jiangsu, Zhejiang and Fujian, thus providing valuable experience for launching similar reforms nationwide.

2001

The theatre chain system was formally and forcefully implemented by the state at the end of 2001. SARFT and the Ministry of Culture jointly issued two documents (Documents 320 and 1519), which sought to accelerate the establishment of film groups and implement the theatre chain system respectively.

China joins the WTO, and consequently the import quota on foreign film is raised from 10 to 20 films per year.

2002

When the 16th National Congress of the Communist Party of China convened, the idea of 'cultural Industries' was formally put forward, with both official and unofficial voices acknowledging the market value and the cultural significance of the film industry. These events would clear the way for massive infrastructural transformation and the establishment of a new market-oriented film industry.

In 2002, the SARFT announced that China Film Group would have to share its distribution authority with distribution companies from the municipalities.

2003

The 'Temporary Regulations on Access to Film Production, Distribution and Exhibition' gave the same rights and responsibilities as the state-owned studios to the private enterprises, which lead to an increase of private studios in the ensuing years

After 2003, the 'Regulations on the Administration of Films' and the 'Interim Provisions on the Production, Distribution, and Exhibition Business Qualification Admittance' allowed state-owned film production agencies to establish production companies with overseas enterprises in joint ventures.

2004

A series of reforms were issued sequentially, including 'Several Opinions on Accelerating the Development of the Film Industry' (2004), and 'Temporary Regulations on Film Screenplay (Outline) Register and Film Examination' (2004). These new regulations sought to establish solid filmmaking infrastructures in China by increasing the availability of capital investment, encouraging creativity and innovation and establishing protective measures for domestic films.

2009

China signs the CEPA (Closer Economic Partnership Arrangement) with Hong Kong and Macau.

2012

The import quota for foreign films is raised to 34 after Chinese president Xi Jinping's visit to the United States in February.

Appendix 2. SAPPRFT Main Responsibilities and Censorship Process

2.1 SAPPRFT's Main Responsibilities

According to SAPPRFT's official website, its main responsibilities include:

The researching, drafting and management of the radio, film, and television industry laws and regulations; the development of radio, film and television management regulations and career development plans; the supervision and management of radio and television programs - satellite television included – and communication with the public through audio-visual programs; SAPPRFT are also responsible for broadcasting radio and television programs, as well as the content of the import management audit. SAPPRFT are also tasked with approving international film, radio and television programs and organisations; approving and revocating television production units; reviewing programming content and quality for radio and television programs; distributing or cancelling film productions; issuing release permits and television production and distribution licenses.

The agency is also charged with the management of radio, film and television-related science and technologies; the formulation of relevant technical policies and standards to guide the application of radio, film and television systems; processing research and development applications; commissioning studies of radio, film and television economic policies.

Other duties include enforcing the state's macro-level laws and regulations; developing radio and television networks dedicated specific policies, regulations and technical standards; ensuring that radio and television programs abide to the safe broadcasting standards dictated by the Ministry of Information; preparing and allocating radio and television-specific bands in the planning; assigning radio and television frequencies (channels) and other technical parameters; participating in the development of national information networks.

SAPPRFT are also responsible for the organisation and transmission of the Central People's Broadcasting Station, China Radio International and China Central Television.

The study of relevant foreign radio, film and television systems; the management and guidance of radio, film and television within Hong Kong, the Macao Special Administrative Region and the Taiwan region; facilitating cultural and economic

exchanges and cooperation.

*Undertaking the CPC Central Committee, other matters assigned by the State Council.*⁷⁵

2.2 Censorship Process

Censorship process administered by SARFT, which occurred during the pre-production stage, following the completion of the script and, again, after the final film was completed. Generally speaking, this two-round, three-step process went as follows:

1. The filmmakers submit their screenplay or finished film to the Censorship Board for review. Theoretically, the board had 15 days to provide a response, although the process often took longer.
2. SARFT then provided feedback to the filmmakers and, where appropriate, offered recommendations for amendment for scenes/sequences that failed meet censorship requirements. The filmmakers were then given the opportunity to make the necessary alterations in order to comply with the requested changes.
3. The script or film was submitted back to SARFT for review of the changes and this process would continue until approval was granted.

If the filmmakers disagreed with the results of the review process, they could apply for an additional appraisal.

Cain asserts that during this process, rather than advising the filmmakers of specific changes needed, SARFT merely indicated what was prohibited. Prohibited subject matter included any criticism of the state, its leader and/or its practices, the representation of sex and violence, and other forms of indecency, religious representation or superstition – in fact, as Cain states, '[a]ny story element that is not rooted in scientific facts, like time travel or ghosts, is also likely to fall to the censor's axe'. Other forbidden subject matter included the representation of drink and drugs, gambling and the sensational depiction of criminality.

Indeed, under SARFT, Chinese film censorship followed the nine guiding principles published in 2008. Any film found to be engaging with the following would incur the wrath of the censors (Cain, 2011).

- (1) Films that falsified history and derided Chinese civilisation, those that disrespected

⁷⁵ SAPPRFT official website, *Main Responsibilities of SAPPRFT*.

other societies, civilisations and customs, and distorted their histories; those that presented scornful imagery of key historical figures and revolutionary leaders, or debased classical literature of both Chinese or foreign origins;

2) Films that belittled or scorned the people's army, armed police, public security organ or judiciary;

(3) Films that presented crass, excessive or indecent material, material that portrayed perversion and promiscuity, whether in the form of rape, prostitution, the graphic depiction of sexual acts, homosexuality, masturbation and/or the displaying of male or female genitalia. Additionally, films that utilised vulgar and excessive language, whether in the form of dialogue or music, as well as those that used distasteful sound effects;

(4) Films that focused upon the graphic depiction of murder and violence, or those containing images of ghosts and other supernatural beings or elements. Films that contained imagery that blurred the lines between truth and lies, good and evil, beauty and ugliness, righteous and unrighteous. Films that presented characters lacking remorse for their crimes; those that displayed reproducible criminal behaviour or material that romanticised murder, violence, drug abuse and gambling, Additionally, scenes depicting the mistreatment of political prisoners or torture; and those containing excessively horrific scenes, dialogues, music and sound effects;

(5) Films that propagated negativity, whether through a pessimistic or cynical worldview or nihilistic value system. Additionally, films that exaggerated the ignorance of ethnic groups or that took pleasure in the darker side of society or social disorder;

(6) Films that promoted religious extremism and/or created discord between different religions, those of faith and atheists, and/or caused unrest between communities;

(7) Films that promoted ecological harm, animal cruelty, and the killing/consuming nationally protected animals;

(8) Films that glamourised excessive alcohol consumption, smoking, whether tobacco or stronger narcotics, and other immoral improprieties;

(9) Films that opposed the spirit of the law.

Appendix 3. Film-related regulatory and enforcement organisations and their Acronyms

Baidu, Alibaba and Tencent (dubbed 'BAT' in the Chinese press)

China Film Archive (CFA)

China Film Corporation (CFC)

China Film Coproduction Corporation (CFCC)

China Film Export & Import Corporation (CFEIC)

China Film Distribution and Exhibition Association (CFDEA)

China Film Giant Screen (CFGs)

China Film Group Corporation (CFG)

Communist Party of China (CPP)

General Administration of Press and Publication (GAPP)

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPAs)

Mainland and Macau Closer Economic Partnership Arrangement (CEPAs)

Ministry of Culture (MoC)

National People's Congress (NPC)

Shanghai Film Group (SFG)

Special Fund Office (SFO)

State Administration of Press, Publication, Radio, Film and Television (SAPPRFT)⁷⁶.

State Administration of Radio Film and Television (SARFT)

State-owned Assets Supervision and Administration Commission (SASAC)

⁷⁶ In March 2013, the State Council announced plans to merge the State Administration of Radio, Film, and Television (SARFT) with the General Administration of Press and Publication (GAPP)

Appendix 4. Co-Production Guidance

In 1979, the China Film Co-Production Corporation was founded. Its remit was to handle joint ventures between Chinese production companies and those from other countries. Initially, China's most common international co-production partner was Hong Kong, the third main producer of films during the 1980s, behind Hollywood and Bollywood (Cheung & Marchetti, 2015; Aranburu, 2017, 22). In 1998, the state founded the Cultural Industries Division of the Ministry of Culture, a department tasked with reinforcing socialist culture into arts and culture industries. Between 1998 and 2002, the Division instigated systematic reforms that sought to promote Chinese culture and the ideology of the state. This seemingly retrogressive development was commonly viewed as a response to the signing of the Closer Economic Partnership Arrangement (CEPA) in June 2003. CEPA was a free trade agreement between Mainland China and Hong Kong, perceived as a concession made by China during WTO ascension negotiations. CEPA impacted upon the film industry quite significantly, as under this new trade deal filmmakers from Hong Kong could freely make films using Chinese cultural assets, and the Hong Kong films could be regarded as the domestic film to share the market (Peng W. , 2015; Aranburu, 2017,22-23).

Co-productions thus became a prominent part of the contemporary Chinese film industry and, as PENG Weiyong (2015) demonstrates, made significant contributions to the domestic box office. Indeed, in 2002, 18 out of 100 domestic film were made in some variety of joint productions and these films accounted for a whopping 90.4% of domestic box office revenue. As of 2012, this figure had fallen to 45.6%. However, 58 films were now co-produced out of the 653 domestic films released that year. Thus, we see that in the early 2000s, co-productions contributed significantly to both the Chinese box office and the number of domestic films produced (Peng W. , 2015, 97).

Co-Production Regulations

All filmmaking activity in China is subject to regulation, and cinematic content is subject to approval and censorship. According to the CFCC, there are three requirement that need to be met in order for a film to be considered a co-production. The first requires that no less than one-third of a film's total investment comes from China; the second

dictates that Chinese actor(s) must have significant role(s) within the film, and the film must employ at least one Chinese filming location (China Film Group Corporation, n.d.).⁷⁷ Finally, the film must present China in a positive light.

In addition, the Film Promotion Law of 2016 encourages co-production as decreed in Articles 11, 14 and 41. However, the Promotion Law does forbid local production companies from partnering with foreign filmmakers with the intent on 'damaging China's national dignity, honor, and interests, or harming social stability or hurting national feelings'.

According to the China-International Co-Production Handbook (16-18), the review and approval process for completed co-produced films is conducted as follows:

- 1. After the film is completed, the lead domestic party shall process on-line with E-Government Network under the State Administration of Press, Publication, Radio, Film and Television for film review, and deliver the completed film in HDCAM format together with relevant documents to the provincial or municipal competent authorities for the region in which this party is registered for viewing comments. Afterwards, it shall submit to CFCC for assessment and verification before "The Film Review Decision" is issued. Where the lead domestic party is directly under a central or state organ (army), it shall submit directly to CFCC for viewing comments. Upon initial approval, CFCC shall submit the film to the competent authorities for final approval;*
- 2. The lead domestic party must submit the following materials to CFCC for film review:*
 - 1) Viewing comments produced by the provincial or municipal competent authorities;*
 - 2) Completed film in HDCAM format;*
 - 3) The Domestic Feature Film (Film or Digital) Review Statement;*
 - 4) The Domestic Film Review and Approval Form, filled out by the lead domestic party, four originals and each with official seal, plus a digital version;*
 - 5) The Major Creative Contributors Form, made out in duplicate, plus a digital version;*
 - 6) An application letter for English film title;*
 - 7) Where applicable, a copy of approval for change of co-producing party or parties;*
 - 8) A digital version of complete dialogues;*
 - 9) Credits and lyrics;*

⁷⁷ <http://www.cfcc-film.com.cn/>

-
- 10) *"The Film Production Permit (Single Film)" returned by the processing party;*⁷⁸
- 11) *Where applicable, a copy of approval for change of the film title;*
- 12) *A copy of the co-production agreement between all co-producing parties; in case of change of co-producing party or parties, a copy of the updated co-production agreement should be submitted;*
- 13) *Stills (no less than 6 pieces);*
- 14) *A Letter of Authorisation from the lead domestic party for the handling person to collect "The Film Public Exhibition Permit" (with official seal);*

Note: Items 4) 5), 8) and 12) may be burned on two compact discs, one for CFCC and the other for the Film Bureau.

⁷⁸ Film Production License FPL means companies that have produced two or more films with the Single Film licence are qualified for application. Effective for two years once granted.

Appendix 5. Filming Bases/Platforms; Film Service Organisations; and Main companies;

5.1 Important Filming Bases/ Platforms

While a number of newly established film production firms have emerged in China over the past few years, market participants have become increasingly conscious of the risks and complexities of filmmaking and, consequently, many have chosen to merely serve the production process as oppose to participate in production exclusively. That is to say, many companies offer services or facilities to production companies rather than making films themselves.

The most common form of production support has been the building of production facilities. These premises take a variety of forms, including workshops for artists and photographers, rehearsal spaces for dancers or actors, set arrangement and creation workshops, props and model workshops, soundstages, storage spaces and lockups, work spaces dedicated to wardrobe design and manufacturing, dressing rooms, make-up salons, laundry spaces, production and administration offices, editing suites, processing laboratories, sound mixing studios, audio suites, scoring or orchestral stages, special effects suites, backlots, water tanks, and screening rooms (Goldsmith and O'Regan 2005, xi).

The development of such hireable spaces has been welcomed by both the private enterprises and local governments alike. As mentioned previously, many of the new participants within Chinese film production come from outside of the cultural industries, such Tencent, Alibaba, or the Wanda Group. It is thus more cost-effective and less financially risky for a real estate company such as Wanda, for example, to invest in and build large filmmaking facilities than make a film. Their facilities can be leased to different film production teams without the financial risk of producing a film and hoping that it proves to be a box-office success.

Indeed, high-quality workshops housing the latest technologies and facilities can attract production teams from all over the globe, which, in turn, can attract tourism to the area, which boosts the economy at large. For example, not only will peripheral facilities such

as hotels, restaurants, and shopping malls be needed to house, feed and entertain international production crews during their stay, but these peripheral facilities will also accommodate tourists attracted to the lure of international stars.

Ultimately, an economic and cultural eco-system is formed around the new filmmaking facilities, proving financially lucrative for the area as a whole. Tourism, skilled labour, and population growth are all perceived as beneficial to local governments and so, accordingly, incentives are offered for the development of high-tech filmmaking facilities. It is unsurprising, then, that the development of filmmaking studios and workshops has been increased dramatically and become an important element in the production of the Chinese film industry.

Some notable filmmaking studios or platforms are worth mentioning including:

Hengdian World Studios: Located in a remote town situated within China's Zhejiang province, Hengdian World Studios is the largest film studio in the world. While an increasing number of Chinese real estate developers, including Wanda Group, Evergrande Group, and Sunac China, have built or began building film studios since the development of Hengdian World Studios, Hengdian has maintained a dominant position within the industry, attracting seventy percent of all Chinese film and television production in 2017 (China Film Insider, 2017).

As the largest outdoor film studio in the world, Hengdian World Studios currently extends over more than 2,500 acres. The facility was initially built upon farmland in the mid-1990s and has expanded to now house 13 shooting bases with a building area spanning 495,995 square meters. The plot also accommodates many full-scale replicas for iconic ancient palaces such as the Forbidden City and the Old Summer Palace. A number of internationally renowned Chinese martial art films were shot in Hengdian, such as *Crouching Tiger, Hidden Dragon* (Ang Lee, 2000), *Hero* (2002, Zhang Yimou) and *The Forbidden Kingdom* (Rob Minkoff, 2008), starring Jack Chen and Jet Lee. Continuous support from the Zhejiang provincial government has helped the development of Hengdian and its ambition to build a "Chinawood" that can rival and surpass Hollywood (Montefiore 2014).

Oriental Movie Metropolises: The product of an eight billion USD investment from the

Dalian Wanda Group, the Oriental Movie Metropolis is somewhat unprecedented. The project, unveiled in 2016, positioned itself as a global enterprise that sought to attract production from around the world. A collaborative project between the Wanda Group and the government of Qingdao, Shandong, where the studios have been built, the Oriental Movie Metropolis offers a tax rebate of up to 40 percent on qualified expenditure (Kay 2016). As one of the largest real estate developers in the world, and an active player in Forgiven Entertainment and numerous other cultural entities, Dalian Wanda, through its Oriental Movie Metropolis, is perhaps the most well-suited of China's newly emerging studios to provide a service that will attract global, and notably Hollywood, production companies to shoot their films in China. Being a highly diversified media conglomerate, Wanda has the capital to furnish its studio facilities with the latest state-of-the-art production technologies and services that, alongside their very attractive tax rebate scheme, will encourage foreign production into China.

Meanwhile, Dalian Wanda's reputation in property development, one built upon the success of Wanda World, the theme park and entertainment complex that houses modern malls, hotels, restaurants and theatres, guarantees them a warm welcome and financial supports from local governments hoping that collaboration with Wanda will result in wider urban development and modernisation. Partnerships, such as that seen between Dalian Wanda and Qingdao city could potentially allow China to challenge and eventually dethrone Hollywood of its central position in film production, although Wanda did state that its Qingdao project was equally an opportunity for Hollywood, not a form of competition (Maddaus, 2016).

Chinawood: In much the same way as the terms Hollywood, Bollywood and Nollywood (from Nigeria) have become common parlance, as China's prominence in world cinema continues to rise – China is currently the world's second-largest movie market – so too is the phrase 'Chinawood' increasingly in prominence.⁷⁹ In April 2012, Chinese

⁷⁹ In the past, foreign media have had different views of Chinawood. In December 2011, the Institute of Peace & Conflict Studies, based in India, published an article on its website saying that whatever happens in domestic and overseas markets, the Chinese film industry is presenting Hollywood with fierce competition. Many Chinese film corporations have also begun to expand into overseas markets. When the Indian media used the term 'Chinawood,' they are referring specifically to the development of the Chinese film industry. They think the Chinese government has invested a large amount of funding to support this industry.

entrepreneur Bruno Wu's Harvest Seven Stars Entertainment joined forces with the Tianjin city government to build Chinawood, a USD 1.27 billion film and media hub spanning 800,000 square meters. The project aimed to lure U.S. and other foreign productions and provide a creative hub for co-productions. Some reports (Sohu Entertainment News, 2012; Fleming, 2012) have suggested that Chinawood seeks to provide three core services. Firstly, it provides an investment platform for both major Sino-U.S. co-productions and independent Chinese films; secondly, it is creating an information centre for production, and thirdly, Chinawood endeavours to establish a marketing centre for worldwide distribution.

5.2 Film Service Organisations

(1) Film Equipment Rental Companies

a. Beijing Film Equipment Leasing Company⁸⁰

As part of the China Film Group, the Beijing Film Equipment Leasing Company provides advanced photography and lighting equipment; as well as the necessary moving and lifting gear. The company is located in Yangsong, a town located in the Huairou District of northern Beijing. The Beijing Film Equipment Leasing Company has thus far provided its services to films such as *Horseback Song King*, *Forever Enthralled* (CHEN Kaige, 2008), *Fit Lover* (ZHANG Jianya, 2008), *The Founding of a Republic* (HUANG Jianxin and HAN Sanping, 2009), *Jing Tian Dong Di* (DONG Shen and WANG Jia, 2009) and *True Legend* (Yuen Woo-ping, 2010).⁸¹

b. Shanghai Video Equipment Rental Company⁸²

The Shanghai Video Equipment Rental is a subsidiary of Shanghai Film Group and

⁸⁰ The Beijing Film Equipment Leasing Company includes Arricam ST camera, Arricam LT camera, Arri 435x high-speed camera, Arri 235 portable camera, and Arri 535B camera packages. It also provides a wide range of fixed focus, zoom and wide-angle lenses. Additionally, it possesses a 17-meter Galaxy crane system, a 12-meter Foxy crane system and 37-foot Telescopic crane lift. Lighting packages include par, dysprosium and mini lamps. Power ranges from 200 watts to 18 kilowatts.

⁸¹ China-International Film Co-Production Handbook, 34.

⁸² It has a full range of Arri lighting packages, and various foreign and Chinese weaponry from the 1930s to the present day. It possesses various kinds of china, vehicles, rickshaws, decorations, pendants, calligraphy paintings, clocks, furniture and old-fashioned cameras, radios and recording devices; as well as a wide range of costumes from the dynasty era, from imperial courts, to civilians, to soldiers (see China-International Film Co-Production Handbook, 34).

provides video and lighting equipment, props, pyrotechnic and weapons, and vehicles, as well as power generators. Shanghai Video Equipment Rental has lent its services to *Escape from POW Camp*, *The Land of Far Away*, *Red River Valley* (FENG Xiaoning, 1997), *Kung Fu Hustle* (Stephen Chow, 2004) and *The White Countess* (James Ivory, 2005).⁸³

(2) Costume and Props Services

a. Hengdian Management Services Company

Hengdian Management Services is a subsidiary of Zhejiang Hengdian World Studios Ltd., located in Dongyang City, Zhejiang. Hengdian offer an array of film-related services including location scouting and production-services including equipment, props, clothing, extras, vehicles, and/or accommodation hire.⁸⁴

b. Beijing Video Pre-production Corporation

Affiliated with the CFCG's Digital Video Production Base, Beijing Video Pre-Production Corporation specialises, as the name suggests, in pre-production matters for both film and television. Their facilities include a make-up building and a 5,000 square meter warehouse containing costumes, props and various other polytechnics and practical effects. The itinerary of the Beijing Video Pre-Production Corporation is also available for professional hire and the company also offer processing and manufacturing services for props and costumes, as well as professional training.⁸⁵

(3) Post-Production Services

With regards to China's post-production companies, ownership is relatively flexible and the capital supporting the industry can come from both SOEs and POEs, including foreign investment. Furthermore, post-production is heavily linked to other tech-related industries.

a. Oriental DreamWorks

Oriental DreamWorks is a joint-venture company co-established by China Media Capital, Shanghai Media Group Limited, Shanghai Alliance Investment Ltd., and DreamWorks Animation SKG. Based in the Xuhui District of Shanghai, Oriental DreamWorks operates

⁸³ China-International Film Co-Production Handbook, 35.

⁸⁴ China-International Film Co-Production Handbook, 36.

⁸⁵ Ibid.

in several film-related business sectors, including research and development into animation technology, animation video production, copyright distribution, derived products, performance and entertainment, digital games and even theme parks.⁸⁶

b. Cameron Pace Group China

The Cameron Pace Group China is a Tianjin-based production company offering 3D technology and production services. The Cameron Pace Group was founded in 2011 by the acclaimed director James Cameron and award-winning cinematographer Vince Pace. The Cameron Pace Group China was launched the following year in 2012, capitalising on China's sustained interest in 3D cinema. The Cameron Pace Group China offers technical support from script to screen, including post-production services and Digital Intermediate (DI) services.⁸⁷

c. Shanghai SFS Digital Media Co., Ltd.

Shanghai SFS Digital Media Co., Ltd., is joint-venture project established by the Shanghai Film Group Co., Ltd., SMEG Investment Co., Ltd., and Shanghai Orient Broadcast & TV Technical Co., Ltd. Shanghai SFS Digital Media specialises in digital effects for film, television, animated series, video game software and advertisements. Its works include *Crash Landing* (ZHANG Jianya, 1999), *Fatal Decision* (Benzheng Yu, 2000), *Red Snow* (ZHANG Jianya, 2003), and the television series *The Storm Riders* (Hsu Chin-liang, 2002).⁸⁸

d. Technicolor Beijing

Technicolor Beijing is the product of a 2006 joint investment by Technicolor U.S. and Technicolor Yingpai Digital Production Co., Ltd. Technicolor Beijing is an industry leader in digital effects and colour matching services, engaged in VFX production, DI, film to tape transfer, colour matching, film editing and on-site effects instruction. Technicolor Beijing worked on the post-production of *The Banquet* (Feng Xiaoning, 2006), *Assembly* (Feng Xiaoning, 2007), *If You Are the One* (Feng Xiaoning, 2008), *Aftershock* (Feng Xiaoning, 2010), *The Love of the Hawthorn Tree* (Zhang Yimou, 2010), the television

⁸⁶ China-International Film Co-Production Handbook, 37.

⁸⁷ Ibid.

⁸⁸ China-International Film Co-Production Handbook, 38.

series *The Dream of Red Mansions* (Li Shaohong, 2010) and many others.⁸⁹

e. Phenom Films

Located in Beijing, Phenom Films Co. Ltd., is a video technology company specialising in the design and implementation of visual effects. They engage in visual effects production, DI colour matching, 3D stereo production, film editing, audio processing, trailer production, DIT data management, digital projects, the production of computer-generated video games and animation production. Phenom Films contributed to the production of films such as *Painted Skin: The Resurrection* (Wu Ershan, 2012), *Back to 1942* (FENG Xiaogang, 2012) and *American Dreams in China* (Peter Chan, 2013).

f. Wuxi Studio

Wuxi Film Studio, nicknamed Chinawood Studios, is located in the Binhu district of Wuxi, in the Jiangsu province. Amongst its facilities is a digital video production area, which includes photo studios, editing rooms and video studios, and has attracted a variety of established international video software R&D and production enterprises, including the U.K.'s E3D, BaseFX from the U.S., the Canadian production company, Mokko Studio and SoulPower Beijing (China-International Film Co-Production Handbook, 39).

g. National Film Digital Production Base's Post-Production Corporation

The China Film Group National Film's Digital Production Base has the most advanced digital film post-production system in the world, providing the film and television industry with high-end services that include the design and production of digital effects, DI production, film matching and Digital Cinema Master production. China Film Group's Hualong Film Digital Production Co., Ltd., is the only "demonstration project of film digital production industrialization" approved by the National Development and Reform Commission (China-International Film Co-Production Handbook, 40).

5.3 The Big Companies in Production, Distribution, and Exhibition

In 2010, there were over 1,100 production studios in China, and over 1,000 of these studios were privately-owned, producing over 70 percent of China's domestic film

⁸⁹ Ibid.

output (The Research Report of the Chinese Film Industry 2011, 2012, p4). According to Entgroup statistics, between 2013 to 2015, the top ten production companies⁹⁰ in China were CFGC, CCTV6, Huaxia Distribution, Huayi Brothers Media, Group Co. Ltd., SFG, Enlight Pictures, Levyp, Toonmax Media, Bona, and Wanda Media Co. Ltd.⁹¹

With regards to the film distribution sector, SOEs continue to play a domination role, the four largest state-owned distributors being CFGC, CCTV6, Huaxia Distribution and SFG. Overall, the top ten distribution companies in China are CFGC, Huaxia Distribution, Huayi Brothers Media, Group Co. Ltd., Enlight Pictures, Bona, Wuzhou Film Distribution Co. Ltd., Wanda Media Co. Ltd., Levyp, EDKO (Beijing) Distribution Co. Ltd., and Beijing Juhe Yinglian Media Co. Ltd.

China's exhibition sector is made up of both SOEs and POEs. The top ten cinema circuits (exhibitors) in China are Wanda Cinema Line, China Film Stellar Theater Chain, Shanghai United Circuit, Da Di Digital Cinema, GZ Jin Yi Zhu Jiang Movie Circuit Co. Ltd., China Film South Cinema Circuit, Zhejiang Time Cinema, China Film Digital Cinema Co. Ltd., Hengdian Theater Chain and the New Film Association.

However, even more film studios and media companies have been established since the beginning of this study, such as the Alibaba Pictures Group Ltd., founded in 2014. Without a doubt, some of these newly established studios and companies have shown great potential and will likely emerge as major players in the future. For example, the net profit of Alibaba Pictures stood at around USD 71 million (CNY 466 million) in 2015 (Net News, 2016).

According to the statistics of the leading Chinese cinema chains for 2016, the ranking has been updated.

At the end of April 2017, China had the greatest number of cinema screen in the world at 45,741 screens. The chart above shows the top ten Chinese cinema chains according to a number of screens.

Underscoring the massive size of China's exhibition industry, China's top ten cinema chains are ranked amongst the top twenty global leaders in terms of screen numbers.

⁹⁰ *Entgroup*, Ranking of Companies (source from *Entbase* in-side information)

⁹¹ *Entbase* (data information) from 2013-2015

Apart from Wanda Theatre chain, China's leading exhibitor in terms of box office revenue and owner of North America's screen leader, AMC Theatres, Dadi Theatre is perhaps the Chinese exhibitor to keep a close eye on. After Dadi's acquisition of Orange Sky Golden Harvest in January 2017, the exhibitor leapfrogged China Digifilm Cinemas to become China's market leader in terms of screen numbers, and Dadi's CEO YU Xin has expressed her ambition for global expansion in the future. It is the prediction of the author that Dadi will continue to be a major market force as China's vast exhibition industry begins to consolidate over the next three to five years.

Some of the main privately-owned film production firms are:

The Huayi Brothers Media Corporation. Founded in 1994, Huayi Brothers can be considered one of the pioneers of non-state-owned film production in China. Huayi found success with a number of popular comedies released in early years of the 21st century such as *Cell Phone* (FENG Xiaogang, 2003) and *A World Without Thieves* (FENG Xiaogang, 2003). Huayi was also the first Chinese media corporation to be traded publicly after its 2009 IPOs were sold on the Shenzhen Stock Exchange. Huayi is currently in a healthy position and has built a strong resilience to future competition thanks to an accumulation of IPs. In 2015, Huayi made a deal with American entertainment and media company STX Entertainment, which will see them collaborate on at least 18 co-produced films before 2018.

Huace Film & TV International Media Co., Ltd: A relatively new production company founded in 2005, Huace is famous for its IPs holdings. Huace has built a strategic partnership with American Arclight Films, owners of the Batman franchise, in which they shall co-produce 12 films with a focus on adapting their IPs.

Enlight Media Group: Founded in 1998, Enlight came to prominence as a producer of entertainment-oriented television programmes. Although already a major player in the television industry, in 2015, Enlight shifted its focus towards film production in an effort to capitalise upon the booming Chinese film market.

Bona Film Group Limited: Established as a non-stated owned distributor in the early 21st century, Bona now operates both production and distribution practices. Bona also specialises in other film related financial services and has been seen as an excellent film

investor. A number of commercially successful films produced by 20th Century Fox were partially financed from Bona, these include *The Martian* (Ridley Scott, 2015) and *Independence Day 2* (Roland Emmerich, 2015). Bona is also the first Chinese film company to be traded on the NASDAQ.

Le Vision Pictures: A subsidy of LeEco, the well-known Chinese technology company specialising in online streaming, Le Vision has also built its own film production teams. Le Vision's sister company Le.com operates the largest video-on-demand (VOD) platform in China, granting Le Vision an online platform for its production and distribution facilities. Le Vision signed the famous Chinese director ZHANG Yimou who directed the global hit, *The Great Wall* (ZHANG Yimou, 2015) starring Matt Damon, which launched Le Vision onto the global stage.

Wanda Media: Possibly the most internationally recognisable Chinese production company, Wanda made a huge statement about its global ambitions by purchasing a number of high profile international media assets, such as the AMC cinema chain, Legendry Pictures Productions, and the ODEON cinema chain. Wanda's greatest strength is its formidable capital and financial capability. In addition, Wanda has a strong presence in every stage of the Chinese film industry and a prominent bearing in American production, distribution and exhibition. The strong supply chain that Wanda has established has helped minimise risk and lower costs. It is widely believed that it is just a matter of time before Wanda is crowned the biggest, most profitable, and most influential film company in China.

There are a wide range of organisations dedicated to various film productions services in China. These services include film equipment rental companies, costume and prop services, and post-production companies. Not only do such companies provide services to local filmmakers, these service companies also work alongside foreign production companies that shoot in China. In the case of both film equipment rental companies and companies offering costume and prop services, many are joint-venture companies or have affiliation with either a SOE or private conglomerate.

Appendix 6. Policies announced during 2010 to 2016

Date	Policy	Highlights
2010	-Guidelines on Stimulating Film Industry Development -Guidelines on Financial Support for the Promotion and Development of Cultural Industries	<ul style="list-style-type: none"> Film industry is one of strategic industries for China Additional guidelines on financial supports
2011	CCP Central Committee Decision on Several Major Issues in Deeping Reform of Cultural Systems and Pushing Greater Prosperity in Socialist Cultural Development	<ul style="list-style-type: none"> More details on supports and regulations
March 6, 2011	Outline of the Twelfth Five-Year Plan for National Economic and Social Development in the People's Republic of China	<ul style="list-style-type: none"> Soft power approach Building more cinemas in medium and small cities Further emphasise the importance of film industry as a strategic industry for China
December 1, 2011	SARFT Guidelines on Driving the Development of Film Making, Distribution, Screening and Coordination	<ul style="list-style-type: none"> The portion of profits from the initial showing less than 50% Annual rental cost for cinemas less than 15% of annual box office revenue Cinemas that contractually join cinema lines should, in principle, not be signed for less than three years Cinemas take control of income of in-film advertisement from production
February 18, 2012	Memorandum of Understanding between the United States and China on Resolving WTO Film Related Issues	<ul style="list-style-type: none"> China will introduce another 14 US films on top of existing annual quota of 20 films, subject to their supportive technique for 3D or IMAX show The US partner share up to 25%; Increase opportunities for Chinese private businesses to distribute foreign

		films, dismantling the monopoly of state-owned enterprises
	Current Measures for Strengthening Cross-strait Film Cooperation	<ul style="list-style-type: none"> Taiwanese films will be exempt from quota restrictions More promotion and incentive for film trade between Taiwan and mainland China will be introduced
December 1, 2012	Circular of the State Council Concerning Subsidizing Creation and Production of Domestic High-tech Format Films	<ul style="list-style-type: none"> More awards for high-tech format films distributed and released
	Supplementary Circular of the State Council Concerning Implementation of “Tax Refund after Collection” Policy for Newly-built Cinemas	<ul style="list-style-type: none"> The box office revenue of domestic films shall be divided into three tiers Additional funds for creation and production of domestic films.
	Supplementary Circular of the State Council Concerning Subsidizing the Installment of Digital Projection Equipment	<ul style="list-style-type: none"> Tax refund incentives for newly built cinemas if more than 45% annual box office revenue from domestic films
2013	Supplementary Circular of General Office of the State Council Concerning Printing & Distributing of Rules for Major Internal Organizations and Staffing in SAPPRFT	<ul style="list-style-type: none"> Censorship will be lifted for film scripts of general themes and synopsis announcement will be implemented
March 2014	Opinions on Deeply Promoting Cultural Financial Cooperation	<ul style="list-style-type: none"> The Ministry of Culture and PBOC will build cultural and financial cooperation demonstration areas in regions with mature cultural industry and good financial service basis; The significance is to promote cultural and financial cooperation, and encourage the combination of social capital, financial capital and cultural resources

May 2014	Notice on Some Economic Policies to Support the Development of Film Industry	<ul style="list-style-type: none"> • Arrange USD 16 million each year, • Support 5-10 key subject films
August 2014	Implementation Opinions on Vigorously Supporting Development of Small and Micro Businesses	<ul style="list-style-type: none"> • State SME Galaxy Training Program; • Cultural industry start-up and innovation talent support program
October 2014	Lecture of Xi Jinping at Art and Entertainment Work Symposium	<ul style="list-style-type: none"> • People oriented art and entertainment development should not blindly follow the market.
15 Jan 2015	Guidelines on Development of Cultural Services for the Public 关于加快构建现代公共文化服务体系的意见 ⁹²	<ul style="list-style-type: none"> • Film Public Service
9 Feb 2015	Notice of Online Film Ticket Improvement and Regulation 关于做好电子商务售票工作的通知	<ul style="list-style-type: none"> • Industry standardized development
11 Feb 2015	Notice of Incentives for New Build Cinemas and Applications Process 关于线程影院建设补贴资金申报和管理工作的补充通知	<ul style="list-style-type: none"> • Financial support
28 March 2015	Promotion of New Silk road Economic Zones and the 21 st Century Silk Road by Sea 推动共建丝绸之路经济带和 21 世纪海上丝绸之路的愿景与行动	<ul style="list-style-type: none"> • International cooperation
4 May 2015	Guidelines on E-commerce Development and New Momentum of Economic Growth 关于大力发展电子商务加快培育经济新动力的意见	<ul style="list-style-type: none"> • Industrial environment cultivation

⁹² The original Chinese titles are given for reference.

5 May 2015	<p>Guidelines of Acquisition of Private Cultural Production and Services Companies</p> <p>关于做好政府向社会力量购买公共文化服务工作的意见</p>	<ul style="list-style-type: none"> Film public service
4 June 2015	<p>Notice of Regulation of Satellite Based Digital Distribution</p> <p>关于规范电影数字拷贝卫星传输和接收事宜的通知</p>	<ul style="list-style-type: none"> Standardized development
5 June 2015	<p>Schemes and Guideline on Development of Modern Public Cultural Services from the SAPPRFT</p> <p>新闻出版广电总局贯彻落实加快构建现代公共文化服务体系的意见的实施方案</p>	<ul style="list-style-type: none"> Film public service
11 June 2015	<p>Guidelines on Promotion of Entrepreneurship and Private Business</p> <p>关于大力推进大众创业万众创新若干政策措施的意见</p>	<ul style="list-style-type: none"> Industrial environment cultivation
23 June 2015	<p>Notice on Tax Return for New Build Cinemas</p> <p>关于调整电影专项资金对‘新建影院先征后返’、‘资助城市影院改造’政策的通知</p>	<ul style="list-style-type: none"> Financial support
23 June 2015	<p>Notice on Adjustment of Domestic Film Development Funds for Promoting High-tech Films</p> <p>关于调整电影专项资金对‘国产高新技术格式影片’奖励政策的通知</p>	<ul style="list-style-type: none"> Financial support
1 July 2015	<p>Guidelines on Promoting Internet Plus</p> <p>关于积极推进互联网+行动的指导意见</p>	<ul style="list-style-type: none"> Industrial environment cultivation

8 July 2015	Regulation of Film Box Office Revenue and Tickets 电影票务营销销售规范	<ul style="list-style-type: none"> Standardized development
31 Aug 2015	Instruction of National Special Fund for Domestic Films 国家电影事业发展专项资金征收使用管理办法	<ul style="list-style-type: none"> Financial support
1 Sep 30 Oct 4 Nov 2016	Feedbacks and Logging Appeals of Chinese Film Industry Promotion Law 中华人民共和国电影产业促进法草案全文公布并于 12 月 5 日向社会公开征求意见	<ul style="list-style-type: none"> Legislative guarantee
Sep 2015	Guideline of Making Societal and Economic Impacts by State-owned Enterprise in Cultural Industry 关于推动国有文化企业把社会效益放在首位,实现社会效益和经济效益相统一的指导意见	<ul style="list-style-type: none"> Industrial environment cultivation
1 Sep 2015	Codes of Integrity for SAPPRFT Staff 新闻出版广播影视从业人员廉洁行为若干规定	<ul style="list-style-type: none"> Standardized development
15 Sep 2015	Ethical Principles for SAPPRFT Staff 新闻出版广播影视从业人员职业道德自律公约	<ul style="list-style-type: none"> Standardized development
24 Sep 2015	Guidelines of Mixed Ownership Enterprises 关于国有企业发展混合所有制经济的意见	<ul style="list-style-type: none"> Industrial environment cultivation
26 Sep 2015	Guidelines on Promoting Service Platform for More Entrepreneurship	<ul style="list-style-type: none"> Industrial environment cultivation

	关于加快构建大众创业万众创新支撑平台的指导意见	
29 Sep 2015	Notice on Suppressing Film Pirating 关于严厉打击在影院盗录影片等侵权违法行为的通知	<ul style="list-style-type: none"> • Standardized development
30 Sep 2015	Notice on Applying of Digital Watermark and Copyright Protection 关于加强数字水印技术运用,严格影片的版权保护的通知	<ul style="list-style-type: none"> • Standardized development
1 Oct 2015	Guidance and Instruction of National Fund of Chinese Film Industry Development 国家电影事业发展专项资金征收使用管理办法	<ul style="list-style-type: none"> • Financial support
3 Oct 2015	Suggestions on Culture and Arts for Socialism 关于繁荣发展社会主义文艺的意见	<ul style="list-style-type: none"> • Improve creation level
14 Oct 2015	Notice on Regulation of Use of Online Drives 关于规范网盘服务版权秩序的通知	<ul style="list-style-type: none"> • Standardized development
20 Oct 2015	Guidelines on Promoting Cultural Service Platforms in Communities 关于推进基层综合性文化服务中心建设的指导意见	<ul style="list-style-type: none"> • Film public service
30 Oct 2015	Notice on Value-added Tax for Exported Films 关于影视等出口服务使用增值零税率政策的通知	<ul style="list-style-type: none"> • Financial support
7 Nov 2015	Guidelines on Suppressing Online Frauds	<ul style="list-style-type: none"> • Standardized development

	关于加强互联网领域侵权假冒行为治理的意见	
22 Nov 2015	<p>Notice on Development of Cultural Service and Consumer Upgrades</p> <p>关于加快发展生活性服务业促进消费结构升级的指导意见</p>	<ul style="list-style-type: none"> • Industrial environment cultivation
Dec 2015	<p>Outlines of the 13th 5-year Plan in terms of Cultural Development in Underdeveloped Areas</p> <p>十三五时期贫困地区公共文化服务体系规划纲要</p>	<ul style="list-style-type: none"> • Film public service
22 Dec 2015	<p>Suggestions on Improving and Strengthening IP protection</p> <p>关于新形势下加快知识产权强国建设的若干意见</p>	<ul style="list-style-type: none"> • Industrial environment cultivation
5 Feb 2016	<p>Notice on Selection Criteria of Excellent Film and TV Works</p> <p>关于遴选优秀影视作品进行译制有关事宜的通知</p>	<ul style="list-style-type: none"> • Industrial environment cultivation and support
29 Feb 2016	<p>Instruction and Guidance of National Film Industry Fund, Revised Version</p> <p>中央级国家电影事业发展专项资金预算管理办法</p>	<ul style="list-style-type: none"> • Financial support
3 March 2016	<p>Notice on Awards for Excellent Cinemas in Promoting Domestic Films</p> <p>关于讲理放映国产影片成绩突出影院的通知</p>	<ul style="list-style-type: none"> • Financial support
8 March 2016	<p>Notice on Awards for Excellent Domestic Films</p> <p>关于对优秀国产影片进行奖励的通知</p>	<ul style="list-style-type: none"> • Financial support

8 March 2016	Notice on Excellent Domestic Films for Oversea Release 关于对优秀国产影片海外推广工作的通知	<ul style="list-style-type: none"> Financial support
7 Nov 2016	Official Promulgation of Chinese Film Industry Promotion Law 中华人民共和国电影产业促进法	<ul style="list-style-type: none"> Legislative guarantee
16 Dec 2016	Notice on Regulation of Broadcasting in Weibo and Other Online Social Media Platforms 关于加强微博微信等网络社交平台传播视听节目管理的通知	<ul style="list-style-type: none"> Industrial environment cultivation
25 Dec 2016	Official Promulgation of Chinese Cultural Service Law 中华人民共和国公共文化服务保障法	<ul style="list-style-type: none"> Legislative guarantee

There were 33 policies announced in 2015, and 11 policies (two laws) issued in 2016. They focused on five perspectives⁹³:

1. Promote the legal and standardized development of the film industry
2. Promote film creation and improve artistic level and quality
3. Cultivate the macroeconomic environment for the development of the film industry
4. Improve the public service level of films
5. Promote the marketization level of the film industry

⁹³ Research Report on the Chinese Film Industry 2016

Appendix 7. Basic Regulations Regarding Box-Office Sharing in China, Ticket Price, and Tax Information

7.1 Basic Regulations Regarding Box-Office Sharing in China

1. All box-office revenue is collected using an electronic ticketing system. The data should then be reported to the Chinese film industry's Special Fund Office (SFO). The SFO is then charged with preparing the data, which will be used to allot the appropriate revenue share to each of the filmmakers, distributors, and theatre chains.

2. All films are obliged to pay 3.3% tax on box-office revenue and an additional 5% to the SFO. The remaining 91.7% is shared between the producers, distributors and theatre chains, although each sector does not receive an equal share.

3. From this remaining share of 91.7%, cinema chains typically take around 57%; the China Film Group takes 1-3% as distribution agency fees, and the remaining 40-42% is split between the producers and distributors (the figure tends to be around 40%).

4. The distributors will typically receive 5-15 % of the 40% split for issuing agency fees. This figure is customarily around 2-6% revenue of the total share of the box office revenue after taxes and the SFO fees (91.7%).

5. In many cases, the distributor will have already paid for the promotion of the film and will therefore take around 12-20% of the 40-42% split between producers and distributors.

6. The competition for screening time within the theatre chains has resulted in some film distributors paying an extra 3-5% share of their box-office revenue to procure more/better screening times (see Exhibition chapter).

7. The formula producers use to calculate box office revenue is as follows:

$$1 * (1 - 0.033 - 0.05) * 40\% * (1 - 0.1) = 0.33.$$

Generally speaking, the producers' can expect to receive around 33% of box-office revenue.

7.2 Film Ticket Price

The average cost of a movie ticket in China currently approximates to RMB 35⁹⁴ (USD 5.10), from which RMB 3.3 (USD 0.48) is paid as a Value Added Tax (VAT)⁹⁵ and RMB 5 (USD 0.73) is apportioned to the National Special Funds for the Development of Film. From the remaining RMB 26.7 (USD 3.89), RMB 11.48 (USD 1.67), or 43% gets divided by the production/distribution companies, the exact split being determined according to agreements between individual producers and distributors. Of this figure, RMB 13.35 (USD 1.94), or 50% is kept by the individual cinema operator and RMB 1.87 (USD 0.27), or 7% will be passed on to theatres within the cinema chain.

According to published reports, the operating costs of a Chinese cinema can be broken down thusly; with roughly 10% dedicated to rent, a further 10% for labour costs, 7-8% energy costs, and 2-3% for marketing. Consequently, the net income from the purchase of an average RMB 35 ticket will be roughly RMB 9.34 (USD 1.36).

7.3 Taxation Information⁹⁶

According KPMG (2017) to Key Tax Facts,⁹⁷

Highest effective corporate income tax rate: 25%

Highest personal income tax rate: 45%

Business tax replaced by VAT, effective May 1, 2016

Value-added tax: generally 17%, 11%, and 6%

Normal non-treaty withholding tax rates: Dividends 10%

Interest: 10%

Royalties: 10%

Tax year-end: December 31

⁹⁴ In 2017's statistics. It was RMB 33.1 in 2016.

⁹⁵ In 2016, an incentive was added, stipulating that theatres that derive two-thirds of their annual revenue from domestic films only have to pay only RMB 2.5 (\$0.36) as Special Funds.

⁹⁶ KPMG. 2017. Film financing and television programming: A taxation guide

⁹⁷ *China used to have two turnover tax regimes, namely, Business Tax (BT) and Value Added Tax (VAT). Since 2012, China has been undergoing a tax reform, replacing BT with VAT starting with selected locations and industries. With the expansion of China's VAT system to the last three industries (i.e., real estate and construction services, financial services, and lifestyle services) effective from May 1, 2016, BT has been entirely replaced by VAT nationwide. The VAT rates of 11% and 6% are introduced as a result of the VAT reform.

According to KPMG (2017), the taxation in the film industry including corporate taxation and indirect taxation:

Corporate taxation

Chinese Resident Enterprises

China resident enterprise is liable for Corporate Income Tax (CIT) on its worldwide income. A China-resident company, for CIT purposes, is defined as one that is incorporated in mainland China or has its effective management in mainland China if it is incorporated outside of mainland China. Taxable income is calculated as the excess of revenue over deductible expenses. Tax losses may be carried forward for up to five years. Taxable income/losses are generally calculated on an accrual basis. The standard CIT rate is 25%. A reduced income tax rate of 15% is available for companies that are engaged in developing technologies that support cultural industry and are recognized as high-tech companies by the relevant government authorities. Certain enterprises in cultural industries are allowed to claim additional deduction on the research and development expenses for developing new technology, new products, and new processes.

Filing

Resident enterprises should file provisional CIT returns on a quarterly basis or, in rare cases, on a monthly basis. In addition, enterprises are also required to file an annual reconciliation based on the audited financial statements. Taxpayers with branches should calculate their taxable income and CIT liabilities on a consolidated basis. However, the head office and the branches should, in general, each file a separate monthly or quarterly provisional return and settle provisional CIT liabilities on a pro rata basis to their respective tax authority. The monthly or quarterly provisional CIT returns should be filed and tax funds paid within 15 days after the end of a calendar month or quarter. An annual CIT reconciliation/return should be filed by the taxpayers and the branches, and the remaining tax funds for the year should be settled within five months after the end of a calendar year.

Non-Chinese Resident Enterprises

Nonresident enterprises should, in principle, only be liable for China CIT on China-sourced income, for example, royalties and dividends paid by Chinese resident enterprises. Where a foreign company carries out co-production of films in China, the foreign company may be liable for the China CIT on the relevant business profit if it is regarded as having a permanent establishment (PE) in China by virtue of the production activities carried out in China.

Indirect Taxation

Business Tax

Prior to 2012, companies and individuals, including foreign companies that provide services (other than repair and processing services) and transfer intangible assets/immovable properties in China, were liable for BT. However, as the Chinese government started to implement the VAT reform from 2012, BT continues to gradually be replaced by VAT for all the above-mentioned industries, services, and activities. Radio-, film-, and television-related services are subject to VAT effective from January 1, 2014.

Value Added Tax (VAT)

Prior to 2012, VAT only applied to the sale of goods in China, importation of goods into China, and the provision of processing and repair services in China. The general VAT rate is 17%. In 2012, the Chinese government started to implement VAT reform, under which VAT would gradually apply to industries, services, and activities that were previously subject to BT. Effective May 1, 2016, BT has been entirely replaced by VAT for all industries nationwide.

As a result of the VAT reform, effective from January 1, 2014, radio-, film-, and television-related services, including production services, distribution services, and broadcasting services with respect to radio, film, and television programs, are subject to VAT at 6%.

On May 31, 2014, several government authorities, including the SARFT, Ministry of Finance, State Administration of Taxation, People's Bank of China, etc., jointly issued a notice regarding various financial and

tax policies with the aim to support the development of Chinese film industries. Based on the Notice, from January 1, 2014 to December 31, 2018, the following revenue is exempt from VAT:

— Revenue for transfer of film copies (including digital copies) and film copyrights by a film production company

— Film distribution revenue by a film distribution company

— Revenue from box office of film theatres in rural areas.

In addition, a general VAT taxpayer may adopt the simplified VAT computation method for box office income by film theatres in urban areas.

On October 30, 2015, the Ministry of Finance (MoF) and the State Administration of Taxation (SAT) jointly issued a circular, Caishui [2015] 118 (Circular 118), which introduced the VAT zero-rated treatment for certain export services and was intended to replace the previous VAT exemption treatment. The VAT zero-rated treatment applies to the taxpayers exporting the radio, film, and television production and distribution services overseas and allows the taxpayers to avoid paying VAT and to claim full input credit or refund of VAT paid on purchases the taxpayers made in relation to providing those services.

Notwithstanding the above, the VAT zero-rated treatment does not apply to the taxpayers exporting the radio, film, and television broadcasting services overseas, which are still only entitled to the VAT exemption treatment.'

Distribution of audiovisual products (including digital media) in China is subject to VAT at 13%. Effective from January 1, 2013 to December 31, 2017, publishers of audiovisual products are eligible for 50% refund of VAT paid.

However, the current regulation is not clear on the VAT treatments for distribution of audiovisual products without physical medium, for example, via Internet downloading. However, the general practice is that the VAT treatments should be the same, regardless of the form of distribution (KPMG 2017). Furthermore, the tax treatments for cross-border distribution of audiovisual products through Internet downloading are even more unclear.

When the distribution is through physical medium, the Chinese importer would carry out customs importation declaration and the customs authority would collect customs duty and import VAT (13%) on the products. However, if the distribution is through Internet downloading, due to lack of mechanism to carry out customs declaration, the customs authority would, therefore, not be able to collect customs duty and import VAT. As such, the payment would be categorized as royalty and the tax authority would impose VAT (6%) and WHT.

